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Marketing

This summary can be used with:

Global Marketing

by **Svend Hollensen**

Section A

SME will often be financially vulnerable with fluctuations in the global demand. Recently there is a change towards a convergence of orientation in LSEs and SMEs. They are becoming more similar in terms of degree of long-term/strategy orientation. This is largely due to the fact that LSE have begun downsizing operations. MSEs and LSEs are learning from each other. Due to pressures from international markets, LSEs and SMEs evolve towards a globally integrated but market-responsive strategy (therefore you can maintain competitiveness on national markets). Of course there are still differences between SMEs and LSEs.

	MSE	**LSE**
Resources		
Financial	Lack of financial resources	Enough financial resources
Education of managers	Limited	
Formation of strategy	Emergent ('not planned') strategy – more drastic changes in strategy are possible (entrepreneurial).	Deliberate ('planned') strategy – formulate intentions precisely; progressive series of steps of goal setting
Organization	Informal	Formal
Risk taking	Can be any degree of risk. Focus on short-term opportunities	Risk averse (because there way of decision making), focus on long-term opportunities
Flexibility	Flexible	Not flexible
Economies of scale	Concentration on small market segments	Because of size, they will take advantage
Economies of scope	Very limited number of international markets	They serve many markets
Information sources	Usually informal manner and face-to-face communication (often fragmented and incomplete).	Market reports made by international consultancy firms

Strategic drift – Incremental changes and environmental market changes move apart.

The firm stands to win or lose by its ability to satisfy the needs of its customers. Asking many questions about the main elements of corporate excellence can create a holistic point of view. The 7-S framework for effective organizations says that it depends on the interaction of 7 factors: Structure, Systems, Style, Staff, Skills, Strategy and Shared Values. The interconnectedness of the 7 Ss is important (they must all be in harmony).

In the stages of the value chain there can be found many opportunities to create competitive advantages.

If such a competitive advantage is sustainable, defensible, profitable and valued by the market, then it may earn high rates of return. A firm is profitable if the value I commands exceeds the costs involved in creating the product.

The value chain exists of:

- **Primary activities:** Inbound logistics, Operations, Outbound logistics, Marketing and Sales, Services
- **Support activities:** Procurement, Technology development, HRM, Firm infrastructure

A simplified version:
R&D à Production à Marketing à Sales and Service

Also a distinction is made in:

- **Upstream activities** – activities that are more production-oriented. They are more independent of where the buyer is located.
- **Downstream activities** – activities that are more marketing-oriented. They are usually tied to where the buyer is located.

Linkages should be analysed in order to asses how they contribute to cost reduction or value added; two types:

- **Internal Linkages** – linkages between activities within the same value chain. It can be links between the primary activities; Choices will be made on how to influence the value added. Also a link between a support and a primary activity may be the basis of competitive advantage.
- A firm consists of 3 distinct levels (Pyramid illustration):
  - **Strategic level**. Responsible for formulation of the firm's mission statement, objectives etc.
  - **Managerial level.** Responsible for translating the objectives in to functional objectives (+ resource allocation)
  - **Operational level**. Responsible for effective performance of the tasks.

- **External Linkages** – linkages between different value chains. Often, not all values activities are undertaken by one single industry (from product design to distribution). Usually suppliers and producers are working together, or production processes might be outsourced. There are often circumstances where the overall cost can be reduced by collaborative arrangements between different organizations in the value system.

All internationally oriented firms must consider an eventual internationalisation of the value chain's functions. Of course not all the functions, but the value chain function with the highest competence. Downstream activities create competitive advantages that are largely country specific. Also, in industries where downstream activities are vital to competitive advantage, there tend to be amore multidomestic pattern of international competition.

Quite often downstream and upstream activities are dependent of buyer location. This means that global strategies are comparatively less common.
The configuration of a firm's worldwide activities and the coordination are distinctive issues of international strategies. They are two key dimensions of how a firm competes internationally.

The virtual value chain treats information as a supporting element in the value-adding process. There are 4 ways of using information to create business value:

1. **Managing risks**. Growth of finance, accounting, auditing and controlling.
2. **Reducing Costs.** Try to use information as efficiently as possible to achieve the outputs required from business processes and transactions.
3. **Offering products and services**. Know the customers, and share information with partners and suppliers to increase customer satisfaction.
4. **Inventing new products.** Information can be used to invent new products, provide different services and use emerging technologies.

Information can be captured at all stages of the physical value chain. Stages of the virtual value chain:

Define info problem à Organize, select and gather info à Synthesize info. à Distribute info.

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Section B

The fundamental reason for exporting is to make money. But of course there are other motives. A distinction can be made between proactive and reactive motives.

Proactive motives – stimuli to attempt strategy change.

- **Profit and growth goals**. Profit is often short time and growth goals long time. With higher profit and more motivation to grow, the greater will be the activities in the company.
- **Managerial urge** – the desire, drive and enthusiasm of management towards global marketing activities. Every manager will deal different with this point. They play a critical role in determining the exporting activities of the firm.
- **Technology competence / unique product**. Differentiation of products is also very good in international markets. If a company has unique competences in a domestic market, selling overseas might not be a great barrier because of low opportunity costs.
- **Foreign market opportunities / market information**. Market opportunities only act as stimuli if a firm has the necessary resources to respond to them. Specialized marketing knowledge or access to information can distinguish an exporting firm from its competitors.
- **Economies of scale**. By becoming more international, the output will increase, and therefore most likely the learning curve will increase as well. Economies of scale might be achieved.
- **Tax benefits**. Tax benefits can also play a major motivating role.

Reactive motives – The firm reacts to pressures or threats in its home market or in foreign markets and adjusts passively.

- **Competitive pressures**. A firm may fear to lose market share to competitors, and therefore might react. Often the market leaders are followed by competitors.
- **Domestic market: small and saturated.** A company might export because the home market is too small (economies of scale and scope can't be sustained). Firms can also use the international market to prolong the life cycle of their product.
- **Overproduction / excess capacity**. The inventory might exceed certain levels. If the inventory level is too high it can be sold outside the domestic country. Expansion into the international market can also be seen as an ideal possibility for achieving broader distribution of fixed costs.
- **Unsolicited foreign orders**. The products of companies might have generated enquiries from overseas.

- **Extend sales of seasonal products**. Seasonality in demand can differ domestically and internationally.
- **Proximity to international customers / psychological distance**. In Europe you become international quite fast due to the proximity of international borders.

Triggers must initiate internationalisations (change agents). Two types:

Internal Triggers

- **Specific internal event**. Someone or something (inside the organization) might stimulate managers to undertake global marketing. Overproduction or reductions in domestic market size are examples.
- **Perceptive management**. Management might be aware of developing opportunities in overseas markets. By going abroad, this might be analysed. Managers entering organizations often have had experience (domestically and internationally). They might use this to attain the goals for the new company; global marketing.
- **Importing as inward internationalisation.** Inward internationalisation might influence and determine the success of outward activities. The buyers or sellers can initiate this. Through interaction with foreign suppliers and buyers, a new network will be accessed.

External triggers

- **Market demand**. Growth in international markets causes the demand for the products of some companies to grow. A company will be pushed into internationalisation.
- **Outside experts**. They can encourage internationalisation
  - *Export agents*. They can work as intermediaries.
  - *Governments*. They often stimulate international business.
  - *Chambers of commerce*. They also stimulate international business (import and export).
  - *Banks*. They often alert domestic clients to international opportunities.
- **Trade associations**. Meetings among managers from different firms at trade association meetings serve as a major change agent.
- **Competing firms.** Look what the competitor does.

There are quite a few barriers hindering export initiation; a few examples: **Insufficient finances, insufficient knowledge, lack of export commitment, lack of foreign channels of distribution etc.**

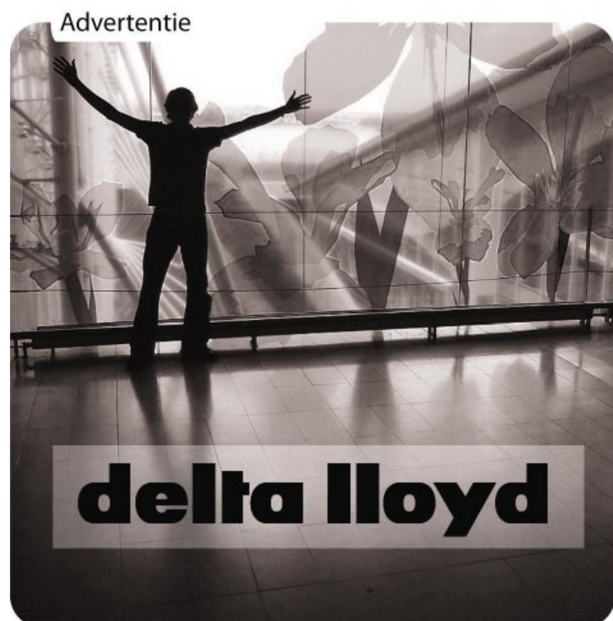
Inadequate information on potential foreign customers, competition and foreign business practices are key barriers facing active and prospective exporters.

Barriers hindering the process of exporting:

- **Commercial risks:**
    - Exchange rate fluctuations
    - Delays and damage
    - Difficulties in obtaining payments etc.
- **General market risks:**
    - Comparative market distance
    - Competition
    - Language and cultural differences etc.
- **Political risks: resulting from intervention by home and host country**
    - Foreign government restrictions,
    - National export policy
    - High tariffs
    - Lack of tax incentives for companies
    - Civil strife, revolution and wars disrupting foreign markets

Risk management strategies:

- **Avoid exporting to high-risk markets**
- **Diversify**
- **Insure**
- **Structure export business**



Section C

In order to be competitive, a firm must be able to adjust to customers, competitors and public authorities. The analysis will go from the macro level to the micro level, using 3 techniques: **The porter diamond (macro), Porter's five forces and the value chain (micro).**

The characteristics of the home nation play a central role in a firm's international success. The competitive advantage will be created and sustained in the home market. The home base is an important determinant of a firm's strengths and weaknesses relative to foreign rivals. World-class buyers, suppliers and customers in the home market, will be advantageous for a firm that wants to internationalise. Different elements of the Porter diamond:

- **Factor conditions**. Factors that have the least degree of mobility will be most important for the sustaining of the competitive advantage (ex. Climate).
- **Related and supporting industries**. Clustering might be advantageous because of a reduction in transportation costs.
- **Demand conditions**. There exists interaction between scale economies, transportation costs and the size of the home market. The composition of demand plays an important role. The core design of a product often reflects the needs in the home market.
- **Firm strategy, structure and rivalry.** Domestic competition has the ability to compete in the global marketplace. When domestic competition is vigorous, you will have to adopt cost saving techniques.
- **Government**
- **Chance**. Innovation of new products is very important. First-mover advantage is also very important.

For the analysis of the competitiveness, often the 5-forces model of Porter is used (buyer, supplier, competitors, new entrants and substitutes). **Industry level** – consists of all types of actors, which have potential or current interest in the industry. **Market level** – consists of actors with a current interest in the market; buyers and sellers. The goal of competition analysis is to find a position in industry where the company can best defend itself against the five forces, or can influence them in its favour.

- **Competitors**. The degree of competition depends on the concentration of the industry, the rate of market growth, the structure of costs, the degree of differentiation, switching costs and exit barriers. The position of a firm must be well balanced in the industry.
- **Suppliers**.
  The higher the bargaining power of suppliers, the higher the costs of the end

product. The bargaining power will be high, when it is a unique product or the buyer is not a very important one etc.

- **Substitutes**.
  The presence of substitute products can reduce industry attractiveness and profitability because they put a constraint on price levels.
- **Buyers**.
  The bargaining power of buyers is higher when buyers are concentrated and/or purchase in large volumes, products are standard, many suppliers or the product is not important.
- **New Entrants**.
  This can increase the degree of competition. Some key factors: economies of scale, switching costs, access to distribution channels etc.

The five forces framework provides an analysis for considering how to squeeze the maximum competitive gain out of the context in which the business is located on the five competitive dimensions that it confronts.

Lately, there is a new theory, which states that cooperative arrangements between industry participants may also be advantageous. There are also 5 sources for the building of collaborative advantage in the industrial environments of the firm. ***The five sources***:

- **Horizontal collaborations** (5 forces: competitors)
- **Vertical collaborations** (5 forces: suppliers)
- **Selective partnering arrangements with specific channels or customers** (5 forces: buyers)
- **Related diversification alliances with producers of both complements and substitutes** (5 forces: substitutes)
- **Diversification alliances with firms based in previously unrelated sectors** (5 forces: new entrants)

Success in the marketplace is dependent on identifying and responding to customer needs and insure that the customers perceive it the right way. The more value customers perceive in a market offering relative to competing offerings, and the lower the costs in producing the value relative to competing producers, the higher the performance of the business.

Customers do not buy products, but they buy benefits. **Perceived value** – the customer's overall evaluation of the product/service offered. Starting to analyse the customers' preferences is thus important. The value chain perspective: each activity in the business system adds perceived value to the product or service. The price must be low and the quality must be high. Particular must be placed upon the following:

- **People** – consumers and employees. The image is very much influenced by the personnel.
- **Physical aspects** – appearance of the delivery location and the elements provided to make the service more tangible.
- **Process** – the method of delivery.

Each activity in the value chain is performed as a cost. Try to provide the highest possible perceived value to the final customer, at the lowest possible delivered cost. A cost advantage is gained when the cumulative cost of performing all the activities is lower than competitors' costs (this is hard due to bounded rationality). The decreasing fixed costs over greater output can be accounted for by the experience curve. It describes the relationship between real unit costs and cumulative volume.
Other cost drivers that determine the costs in value chains: capacity utilization, linkages, interrelationships, integration, timing, location etc.

The basic sources of competitive advantage:

- **Resources** – they include all inputs into the business processes.
- **Competences** – the formation and quality depend on the specific capabilities of the firm in integrating resources and the resource assortment. The objective of a firm is to place products and services in the core competences part.

Competitive benchmarking – literally: take apart a competitor's product and learn from it. The concept of competitive benchmarking is similar to Operational effectiveness (OE), meaning performing similar activities better than competitors perform them.

Critical success factors – those value chain functions where the customer demands/expects the supplier to have a strong competence.

Core competences – those value chain functions where firm Y has a strong competitive position.

The benchmarking model:

1. **Analysis of situation** – Identification of competence gaps. If there is a good match between critical success factors and firm A's initial position, it is important to concentrate resources and improve this core competence to create sustainable competitive advantages
2. **Scenarios.** Try to forecast the demand in the future.
3. **Objectives.** They must be set realistically and with due consideration of the organization's resources.
4. **Strategy implementation**

Section D

The political / legal environment has two dimensions:

Home country environment – it can constrain the domestic and international operations. It can limit the countries that the international firm may enter. In some countries, governments regulate global marketing concerns by bribery and corruption. Many companies don't want to be part of that; they want to be free to use the most common methods of competition in the host country.

Promotional activities. Very often, governments promote and sponsor exports (with or without the help of businesses). They often want to make the country's products more competitive in world markets and they also want to deal with a few internal barriers:

- Lack of motivation
- Lack of adequate information
- Operational/resource – based limitations

Export subsidies are to the export industries what tariffs are to domestic industries. The granting of subsidies is another financially based promotional activity of governments. A vital determinant of the results of a company's export marketing programme is its credit policy.

Information can collected by any company, but is sometimes expensive to do so. Then the national government is often a source of valuable (marketing) information: economic, social and political data, summaries of all sorts of information, export opportunities etc.
Other government activities that can stimulate export activities:

- Trade development offices
- Trade fairs and exhibitions
- Sponsor business people who go abroad.

Not only the government sponsors global marketing, also non-governmental organizations: Industry and trade associations, chambers of commerce, export service organizations, banks, freight forwarders etc. In some countries, state trading exists. This is not very beneficial for private businesses.

Host country environment. All the movements, stability and policies must be monitored constantly. It must not affect the business negatively. Three major types of political risk:

- Ownership risk
- Operating risk
- Transfer risk

Actions of governments can be stated as follows:
Import restrictions, Local-content laws, exchange controls, market control, price controls, tax controls, labour restrictions, expropriation (ultimate tool for controlling foreign firms), and domestication.

Free trade between nations permits international specialization. Efficient firms can increase their output levels. When competition increases, prices of goods in importing countries fall. The profits increase in the exporting country. Two reasons why countries impose tariffs:

1. To protect domestic producers. Tariffs raise the effective costs of imported goods.
2. To generate revenue.

Trade distortion practices can be grouped in:
Tariff barriers; direct taxes and charges imposed on imports. Tariffs are usually used by poorer nations. A few forms of tariffs:

- *Specific* – on particular products (specific weight or volume)
- *Ad valorem* – specific percentage on a good
- *Discriminatory* – the tariff is against a specific country.

Non-tariff barriers. Lately, the non-tariff barriers have decreased. Non-tariff barriers:
Quotas – a restriction on the amount of a good that can enter or leave a country during a certain period of time.

Import Quotas: This way, governments can protect its domestic producers by placing a limit on the amount of goods allowed to enter the country. Also, foreign companies must compete against one another for the limited amount of imports allowed.
Export Quotas: A government may wish to maintain adequate supplies of a product in the home market. And by restricting exports, you can increase the price of a good internationally.

Voluntary export restraints (VER) – a quota that a nation imposes on its exports usually at the request of another nation. Export quotas hurt consumers in the importing nation because of reduced selection and perhaps higher prices.

- *Embargoes* – complete ban on trade (a few or all)
- *Administrative delays* – Regulatory controls or bureaucratic rules designed to impair the rapid flow of imports into a country.
- *Local content requirements* – it forces foreign companies to employ local resources in their production process (especially labour)
- *Historical development of barriers*. Often because of past wars, countries still have high tariffs.

In order to do trade, also the general international environment must be taken into account. Relations between countries often have an impact on firms trying to do business internationally. If a country is a member of a regional group (EU or ASEAN), it is often easier to do trade.

Political risk analysis:

1. **Issues relevance to the firm; issues will differ in size and impact**
2. **Potential political events**
3. **Impacts and responses – political risks are assessed.**

Of course a company can influence the local politics. One way of doing this is lobbying; influence local politics. Another way is corruption.

Economic developments result from one of three types of economic activity:

- **Primary** – agriculture and extractive processes
- **Secondary** – manufacturing activities
- **Tertiary** – activities based upon services

Movement in a currency's exchange rate affects the activities of both domestic and international companies. When a currency is weak, the price of its exports on world markets declines and the price of imports increases. The international lowering of the value of a currency by the nation's government is called devaluation; raising the value is revaluation. Devaluation lowers the price of exports and increases the price of imports.

Stable exchange rates improve the accuracy of financial planning including cash flow forecasts.

Law of one price – an identical product must have an identical price in all countries when price is expressed in a common-denominator currency.

PPPs – the rates of currency conversion that equalize the purchasing power of different currencies by eliminating the differences in price levels between countries.

Classification of countries can be done by income. This is often based on GDP or GNP per capita.

- **Less developed countries (LDCs);** underdeveloped countries and developing countries with a low GDP per capita. The public sector is often slow moving and bureaucratic.
- **Newly industrialized countries (NICs).** These countries are capable of exporting. They often have high growth.
- **Advanced industrialized countries (ACs).** They often have considerable development, good infrastructure etc.

Levels of economic integration:

- **Free trade area** – least restrictive and loosest form of economic integration (EFTA, NAFTA).
- **Customs union** – Goods and services can be freely traded and there also is a common trade policy with respect to non-members.
- **Common market** – customs union + factors of production are mobile among members. Restrictions on immigration and cross-border investments are abolished.
- **Economic union** – Integration of economic policies in addition to the free movement of goods, services and factors of production across borders. Monetary policies, taxation and government spendings are harmonized.

Benefits of regional integration are: trade creation, greater consensus, and political cooperation. Drawbacks or regional integration: trade diversion (the diversion of trade away from nations not belonging to a trading bloc and toward member nations), shifts in employment (it could cause dislocations in labour markets), and loss of national sovereignty.

Most important global market: Triad (Europe, North America and Japan). These countries share similarities on many points. Protectionism is a reaction to forces of the forces of the Triad. The implication of the triad is that all the consumers share the same desires for the same goods.

Per capita income varies widely from country to country.
Criticism on the capita per income figures:

- **They do not reflect purchasing power**
- **It has a lack of comparability.**
- **Sales are not related to per capita income**
- **There is an uneven income distribution in countries**

The structure of consumption varies among developed countries. Often poorer people spend more money on food than richer people.

Section E

Culture – the collective programming of the mind, which distinguishes the members of one human group from another.
Often, a great problem is to understand the underlying attitudes and values of buyers in different countries. The concept of culture is broad and extremely complex. Most cultures have three characteristics:

- **It is learned**
- **It is interrelated**
- **It is shared.**

The tangible aspects of a culture are artefacts or manifestations of underlying values and assumptions that a group of people share. The values and basic cultural assumptions are underlying and hard to understand.

In every culture, communication techniques vary. Sometimes through words (said or written), sometimes through other techniques. Therefore you have **low-context cultures** (Western Europe and USA) and **high-context cultures** (Japan, China, Saudi Arabia).

The behaviour of the individual person is influenced by different layers of culture. The national culture determines the values that influence business / industry culture which then determines the culture of the individual company.

- **National culture** – overall framework of cultural concepts and legislation for business activities
- **Business/industry culture** – A business is in a certain competitive framework and within a certain industry.
- **Company culture**
- **Individual behaviour** – the individual is affected by the other cultural levels.

1. **Low-context cultures** rely on spoken and written language for meaning. They are explicit.
2. **High-context cultures** use and interpret more of the elements surrounding the message to develop their understanding of the message. They are implicit.

Elements of culture:

Language. It can often be described as the mirror of the culture. It can be divided in:

- **Verbal language**. It is an important mean of communication. It varies by culture

and is often explicit or implicit. Plays 4 distinct roles in marketing:

1. Information-gathering and evaluation efforts
2. Access to local society
3. Language is important in global communication / marketing
4. It provides more than the ability to communicate

- **Non-verbal language**. The importance of non-verbal communication is greater in high-context countries. Examples of non-verbal languages are time, space, material possessions, friendship patterns and business agreements.
- **Manners and Customs**. Understanding of this is important in negotiations. If not understood, different (or wrong) conclusions could be drawn. Basic assumptions must often be studied before effectively do business with that specific culture.
- **Values and attitudes**. They help to determine us what we think is right or appropriate, what is important, and what is desirable. The more rooted ones are in the central beliefs. Marketers in other countries must reduce risks involved in trying a new product as perceived by customers or distributors (different techniques must be used per country).
- **Aesthetics** – refers to attitudes towards beauty and good taste n the art, music, folklore and drama of a culture. For this reason, packaged products may differ from colour, design and brand name per culture.
- **Technology and material culture**. Material culture results from technology and is directly related to how a society organizes its economic activity.
- **Social institutions** influence the behaviour of people and the ways in which people relate to each other. Different institutions or groups can have different influence on groups. Reference groups – they provide the values and attitudes that become influential in shaping behaviour.
- **Education**. It includes the process of transmitting skills, ideas and attitudes, as well as training in particular disciplines. Education can be used for many purposes, also cultural change.
- **Religion**. Christianity is the most widely practised. Islam is practised mainly in Africa and the Arab countries. Hinduism is most common in India. Buddhism in central and southeast Asia, china, Korea and Japan. Confucianism has adherents mainly in China, Korea and Japan. Religions vary greatly. When marketing in a specific country, you need to take into account the specific religion that is present. This can be handy with specific holidays or taboos. Women also have a different ‘place’ in each religious society. This also needs to be taken into account.

Hofstede, developed a model that specified how people in different countries perceive and interpret their world. This varies along four (+ one) dimensions; the 4-D model:

1. **Power distance** – the degree of inequality between people in physical and educational terms. Power is dispersed.
2. **Uncertainty avoidance** – the degree to which people in a country prefer formal rules and fixed patterns of life. High uncertainty can be associated with risk aversion.
3. **Individualism**
4. **Masculinity –** the degree to which 'masculine' values prevail over 'feminine' values.
5. **Time perspective –** how members in an organization exhibit a pragmatic future-oriented perspective rather than a conventional history or short-term point of view.

Strengths of this model: four dimensions, the relation between dimensions is very relevant; the outcome was based on a very large sample.
Weaknesses are: it assumes that national territory and the limits of the culture correspond, the research was conducted in a single industry.

In attractive markets, marketing management must decide to what extent adaptations to the given cultural specifics are needed. Different cultures value things like 'punctuality' different. The presentation of business cards is different in Japan than in the US. This illustrates how cultural factors can influence business relationships.

The ***self-reference criterion (SRC)*** has 4-steps (it characterizes our unconscious reference to our own cultural values):

1. **Define the problem in terms of home country culture**
2. **Define the problem in terms of the foreign culture**
3. **Isolate the SRC influence**
4. **Redefine the problem without the SRC influence**

It is very important that the culture of country is seen in the context of that country.

The right mix between local knowledge of different cultures and globalisation/integration of national marketing strategies is the key to success in global marketing.

The current youth culture is more international / global than other age groups. They have more freedom and they are more culturally aware and are reluctant to take anything or anyone at face value.
Culture is a fundamental determinant of ethical decision-making. It affects how an individual perceives ethical problems. Every culture establishes a set of moral

standards for business behaviour; a code of business ethics. Different actions may be perceived as right in one culture but wrong in the other.

If a company would like to be stated as a 'most ethical' company, the firm's code of ethics should address the following issues:

- Political relations
- Customer relations
- Industrial relations
- Organisational relations
- Employee relations
- Economic relations

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Section F

It is important for a company to identify the right market to enter. It can be a major determinant of success or failure. The marketing programme will also be affected by it. The international market selection (IMS) process seems different in SMEs and LSEs. In the SME, the IMS is often a reaction to a stimulus provided by a change agent. Their choice is often limited to nearby countries. Young SMEs often enter more distant markets easier than older SMEs. LSEs can be more proactive. They have more knowledge, and they can more easily obtain market information.

Potential determinants of the firm's choice of foreign market:

- **The environment**. The international market as a country or countries or as a group of customers with similar characteristics. The global market is often divided in different segments. Therefore, data is easier available.
- **The firm**.

STEP 1 AND 2 for IMS
Criteria for effective segmentation are:
Measurability, accessibility, substantiality/profitability and actionability.

PEST approach: Political/legal, Economic, Social/cultural, Technological.
General characteristics of international market segmentation are:

- **Language**, is the mirror of the culture. If you would like to market in a specific country, everything need to be adapted to that specific language. No conflict with meanings of words in that country etc.
- **Geographic location**. This can be a critical factor, depends on what kind of product you sell.
- **Demography**. Is the market you want to target available in that country; what are the population characteristics?
- **Political factors**. Try to find out, how the power of the government can influence your company.
- **Economy**. Not every country has the same economic development. Some countries are poor. In these countries, you will sell different products than in rich countries.
- **Industrial structure**. Every country has different types of competition. Sometimes they prefer retailers, sometimes wholesalers.
- **Social organization**. Every country differs in its social structure; some countries are more individualistic or collectivistic. The family also have different influences in different countries.
- **Technology**. Different countries have a different degree of technological

advancement. This might be a basis for segmentation.

- **Religion**. The impact of religion on marketing can be huge. Christians have other holidays, common values etc. then for example Muslims.
- **Education**. Educational levels are of importance from two main standpoints:

    - The economic potential of the youth market
    - The level of literacy (especially for developing countries)

Specific characteristics of international market segmentation:

- **Attitudes, tastes or predispositions**. Different status symbols in different cultures.
- **Lifestyles**. Every country has different kinds of food, interests, activities etc.
- **Cultural characteristics**. To take advantage of global markets or global segments, firms require a thorough understanding of what drives customer behaviour in different markets.
- **Personality**. Every culture has different types of behaviour. Often, distinctions can be made in temper.

STEP 3 (screening)

1. **Preliminary screening (macro-oriented screening)**, the state of the market (restrictions i.e. GNP, population, no. of cars etc.) and the limited internal resources are taken into account. It is very important to assess the political risk. Measure this with the Business Environment Risk Index (BERI). It measures the general quality of a country's business climate.
   Another method is the shift-share approach. The average growth rate of imports for a particular product for a 'basket' of countries is calculated and then each country's actual growth rate is compared with the average growth rate.
2. **Fine-grained screening**, the firm's competitive powers are taken into account in different markets. A market attractiveness/competitive strength matrix can be used. Import – Export = theoretical market size +/- changes in stocks at distributors = effective market size.
   "A" countries in the matrix – offer best opportunities for long-term strategic development.
   "B" countries in the matrix – opportunities are identified, but several risks (political etc.) are too high.
   "C" countries in the matrix – have high risk, the allocation of resources will be minimal.

STEP 4 (subsegments)

When a prime market has been identified, select sub-segments; using variables such as: buyer behaviour, consumer motivation, lifestyles etc.

With traditional approaches it is difficult to apply them consistently across markets. It is believed that companies who compete internationally should segment markets on basis of consumers, not countries à you get clusters.
After a certain country is chosen, the next stage in the micro segmentation process is to decide with which products or services the company wishes to become active in the individual countries.

There must be a harmony between the firm's competences and the value-chain functions that customer's rate as important to them in order to be able to transform a high market potential into a high sales potential.

The choice of a market expansion strategy is a key decision in export marketing. Firms can use different approaches in order to design their strategy of how they would like to enter markets:

- **Waterfall approach**. This way they can build up experience in international operations. If they have enough experience, they can go to other markets. Try to avoid high risk, especially useful for small firms with limited resources.
- **Shower approach** can be used in order to leverage its core competence and resources rapidly across a broader market base. With this approach, they could forestall competition.

And:

- **Concentrated entry**; concentrate resources on a limited number of similar markets
- **Diversified entry across international markets**; diversify resources across a number of different markets in order to diversify risks. An economic recession in one could be counterbalanced by growth in another market. The selection of concentrating or diversifying on the country level can be combined with concentration or diversification on the customer (segment) level.

The company can use the Herfindahl index to compare its degree of export concentration over time with other firms. The index is defined as the sum of the squares of the percentage of sales in each foreign country. Maximum concentration (C=1) occurs when all the export is made to one country only.

The corporate portfolio analysis provides an important tool to assess how to allocate resources across the different product business. By combining the product and geographic dimensions it is possible to analyse the global corporate portfolio at the following levels:

- **Product categories by regions,**
- **Product categories by countries,**
- **Regions by brands,**
- **Countries by brands.**

Section G

A few rules for choosing the mode of entry into a market:

- **Naïve rule** – the same entry mode is made for all markets.
- **Pragmatic rule** – A workable entry mode is used to enter a market.
- **Strategy rule** – all alternative entry modes are compared, and the best one is chosen.

Transaction cost approach. The unit of analysis is the transaction rather then the firm. The basic idea behind the transaction cost approach is the friction, which often exists between two parties who do business with each other. Problems can exist on the in the way of the stock size of the export intermediary, division of marketing costs, fixing of commission to agents etc.

Opportunistic behaviour from the export intermediary:

- Often a split of the sales promoting costs has been fixed; in most producer-export intermediary relations. The export intermediary can indicate higher than actual promotion activities.
- The export intermediary may manipulate information on market size and competitor prices in order to obtain lower ex works prices from the producer.

Opportunistic behaviour from the producer:

- The producer can change the entry mode into a country.

Export intermediary can meet this situation by establishing personal contacts; create an independent identity in connection with selling the producer's products, or offer further value to a product.

Export modes: low control, low risk, high flexibility (exporting)
Intermediate modes: shared control and risk, split ownership (joint ventures)
Hierarchical modes: high control, high risk, low flexibility (local production units)

Generally speaking, the choice of entry mode should be based on the expected contribution to profit. 4 factors have the main influence on the choice of entry mode:

1. External Factors

a. *Country risk / demand uncertainty*. Foreign markets are usually perceived as riskier than the domestic market; it is unknown. A risk analysis must be

conducted of its method of entry and the market. Heavy resource commitment and high flexibility is demanded.

b. *Sociocultural distance between two countries*. Differences can create internal uncertainty for the firm. This can influence the mode of entry of the firm. Entry modes that involve relatively low resource commitments and high flexibility are favoured.
c. *Market size and growth*. They are key parameters. Often large countries with large markets have high growth rates. This is positive for a company; may be they can establish joint ventures.
d. *Intensity of competition*. The higher the competition, the entry mode that involves low resource commitments will be favoured (export modes).
e. *Direct and indirect trade barriers*. Tariffs or quotas often favour hierarchical modes of entry (local production). Preferences for local supplier etc. often encourage a company to do a joint venture (intermediate mode).
f. *Small number of relevant intermediaries available.*

2. Internal factors

a. *Firm size* – an indicator of the firm's resource availability. Use hierarchical mode.
b. *International experience* – it reduces the cost and uncertainty of serving a market. In turn it increases the probability of firms committing resources to foreign markets.
c. *Product* – the physical characteristics of the product or service are important in determining where production is located. The nature of the product affects channel selection because products vary so widely in their characteristics and use, and because the selling job may also vary markedly. Products distinguished by physical variations may allow a firm to absorb the higher costs of being in a foreign market (product differentiation). Use hierarchical mode.

3. Transaction-specific behaviour

a. *Control*. Mode-of-entry decisions also need to consider the degree of control that management requires over operations in international markets. It is often closely linked to the level of resource commitment.
b. *Flexibility*. Hierarchical modes are not very flexible whereas intermediate modes are more flexible.
c. *Risk averse*. If a company is risk averse, export modes or licensing are likely to be chosen. They need a low level of commitment.

4. **Desired mode characteristics**. When the nature of the firm-specific know-how transferred is tacit, it is by definition difficult to articulate. The greater the tacit component of firm-specific know-how, the more a firm will favour hierarchical modes.

Section H

Export modes; products are transferred to foreign countries. Exporting is typically used in initial entry and gradually evolves towards foreign-based operations. Exporting can be organized in a variety of ways, depending on the number and type of intermediaries. Three major types:

1. **Direct export** – the producer takes care of the exporting activities, or had direct contacts with the first intermediary in the foreign country. The products are directly sold to an importer or buyer located in a foreign market area. Direct exporting modes include export through foreign-based agents and distributors (independent intermediaries)

    - **Distributors.** They take title to the goods, and are paid according to the difference between the buying and selling prices. No commission is paid. Distributors usually seek exclusive rights for a specific sales area and represent the manufacturer in all aspects of sales and servicing in that area.

    - **Agents**. They represent an exporting company and sell to wholesales are retailers in the importing country. Agents are used for entering international markets. The agents are paid by commission.

    Both agents and distributors are familiar with the local market. They often have existing business contacts, which can be used.

    In selecting a specific intermediary, the exporter needs to now each candidate firm's knowledge of the product and local markets, experience and expertise etc. A contract should clearly cover all relevant aspects and define the conditions upon which the relationship rests. Three most important aspects of the agreement are exclusive rights, competitive lines and termination of the agreement.

    There are a few principles that apply to the law of agency in all nations; confidentially must be maintained, the principal is liable for damages to third parties and an agent can't resell a product at a higher price without agreement of the principal.

    Cancellation clauses usually involve rights under local legislation. Termination laws differ from country to country. Often compensation is paid to the agent (for his damages) or other agreements are made.

2. **Indirect export** – the producer doesn't take care of the exporting activities. Independent organizations are used, which are located in the producer's country. Firms who use this approach often have limited international expansion objectives,

have limited resources or want to enter international markets gradually. The firms have little control of the organization abroad. Also, no knowledge is obtained from the market abroad; there is limited information on the market potential. However, the exporting mode is not costly and not risky. 5 main entry modes of indirect exporting:

- **Broker**. The main function of this person is to bring buyer and seller together; it is a specialist in performing the contractual function. He earns his money by a commission.
- **Export management company (EMC) / Export house (EH)**. They are specialist companies, which are set up to act as the 'export department' for a range of companies. They deal with the necessary documentation, their knowledge of local regulations etc. It is easy for small companies to gain a far wider exposure. Disadvantages are the difference between the objectives of the EMC and the suppliers. EMCs might export competitive products; this could be disadvantageous to a firm. It might be hard for a firm to switch from an EMC to exporting themselves. The EMC could start to compete with them on the basis of other products.
- **Piggyback**. This means that the export-inexperienced SME (the rider) deals with a larger company (the carrier). This company already operates in certain foreign markets and is willing to act on behalf of the rider. The carrier is typically paid by commission. Advantages for the carrier is the filling up of 'missing' products in the assortment. Though disadvantageous might be the dependence of the carrier on the rider; can it produce enough products? Advantageous for the rider is exporting without many costs, though disadvantageous is the lack of control the rider might have over the marketing of its products.
- **Export buying agent**. This is a representative of foreign buyers who resides in the exporter's home country. Markets are scanned for products that have been requested to buy. The agents make the initial approach, and buy products at the factory gate, and export them.
- **Trading companies** have existed for many centuries throughout the world. They are still important for several parts of the world. Trading companies play a central role in many diverse areas (shipping finance, insurance etc.). The essential role of the trading company is to find a buyer quickly for the products that have been taken in exchange.

3. **Cooperative export** – collaborative agreements with others firms concerning their performance of exporting functions. They are often used by SMEs attempting to enter export markets for the first time. One of the most important motives is the opportunity of effectively marketing a complementary product programme to larger buyers. The cooperation can be tight or loose. By establishing one organization to replace several sellers, they may realize more stable prices, and selling costs can be reduced. The major functions for the associations are setting prices for export, performing market research, appointing selling agents abroad etc.

Section I

Intermediate entry modes are distinguished from export modes because they transfer knowledge and skills (ex. Franchising, licensing, joint ventures etc), although they may also create export opportunities. The relationships are often long-term.

Contract manufacturing
Several factors may encourage a firm to produce in foreign markets: Lower production costs, transportation costs, tariffs or quotas, regulations etc. Contract manufacturing enables the firm to have foreign sourcing without making a final commitment. It offers flexibility and it can be easy with withdrawal from a certain market. However, the quality has to meet certain standards. Control costs will be rather high.

Licensing
Licensing often is for a longer term than contract manufacturing; also there are greater responsibilities for the licensee. **Licensing agreement** – the licensor gives something of value to the licensee in exchange for certain performance and payments from the licensee (patent, know-how, marketing advice etc.). A licensing agreement is usually advantageous for the two parties, they both gain access to each other's technology and product information. Often the licensee pays the licensor royalty fees, which can be a lump sum amount, a minimum royalty (some income will be given) or a running royalty (based on the number of units sold). In case of political volatility (high risk), it would be wise for the licensor to ask initial payments and may be compress the time scale of the agreement. The licensing agreement or contract should always be formalized in a written document.

Why licensing out (licensor):

- Outsource downstream activities
- Too small to have overseas subsidiaries
- Margins on key components can be high.
- If political risks are high, licensing might be the only entry mode.
- There may be constraints on imports.

Why licensing in (licensee):

- Licensing means lower development costs.
- Fast access to technology (in case of technology licensing)

Franchising
It is a marketing-oriented method of selling a business service, often to small independent investors (something of an umbrella term). Factors that increased the use

of franchising were a worldwide decline of traditional manufacturing industry and a growth of self-employment.

There are two major types of franchising:

- **Product and trade name franchising**
- **Business format 'package' franchising.** An entrant (franchiser) sells a package to the host country entity, which contains most elements necessary to establish a business and run it profitability (often in a predescribed manner). It often contains copyrights, designs, patents, trade secrets etc. Also, often- managerial assistance is provided.

Types of business format franchise are often fast food restaurants, car repairs, personal services and convenience stores.

The goal of franchising is to search for an environment that promotes cooperation and reduces conflict. Often, adjustments from franchising concepts, which already operate in another foreign markets, are made. The more experience they have, the better it will go in the future. Both the franchiser and the franchisee bring important qualities to the business. Franchisers benefit from franchisee goodwill in the community and from their suggestions for innovation. Two key success factors:

- *Capacity for renewal of the business system*. The highest proportion of innovation originates from franchisees in the field. Trust and cooperation are very important for the franchiser and franchisee.
- *Integrity of the business system*. Standardization is a very important aspect of franchising. Every expects the same everywhere. However, this means that the franchiser must keep control over the franchisees in some way.

Conflicts can arise; this can be reduced by establishing extensive monitoring of the franchisee or they should view their relationship as partners who run a business.

Joint ventures / strategic alliances

This is a partnership between two or more parties. Reasons can be complementary technology, increase the speed of market entry, and try to avoid government regulations for foreign ownership, Global operations and R&D are expensive. Strategic alliances are often non-equity cooperation's, whereas joint ventures are equity cooperation's. This means that foreign and local investors share ownership and control.

3 different types of value chain partners:

- Upstream/downstream-based collaboration
- Upstream-based collaboration (R&D, production)

- Downstream-based collaboration (marketing, sales/service*)*

Coalitions:

Y – partners share the actual performance of one or more value chain activities
X – Partners divide the value chain activities between themselves

Stages in joint-venture formation:

1. **Objectives; can be:**

    a. Entering new markets. They might otherwise have problems with certain cultural differences.
    b. Develop new technologies rapidly. Build jointly on the technical expertise; they both develop products.
    c. Reduce manufacturing costs. Gain economies of scale.

2. **The objectives might also be attained in another way; Find out which way is the least costly.**

3. **Select an appropriate partner by:**

    a. *Establish a desired profile*; what would you like to be a partner to be like? (Finance, organisation, market, production, institutional, possible negotiating attitudes).
    b. *Identify entities*, through networks (of suppliers, customers etc.)
    c. *Screen them* (do they abide by the profile you made up?)
    d. *Initial contact*; highlight the personal side of a business relationship.
    e. *Partner preferences.* The partners must be compatible and willing to trust one another.

Develop business plan; define the composition of the management, what kind of ownership split, how to market the products and what kind of production tools should be acquired.

4. **Negotiation of the agreement between the partners**
5. **Write a contract.** Specify conditions for each partner, also in case of a 'divorce situation'.
6. **Performance evaluation**. This is a difficult task. Many alliances need considerable time before they are ready to be judged on conventional output measures. This can't be done in the beginning.

Managing a joint venture is quite hard. The most joint ventures only live for an average of 7 years. Often power shifts to the party that controls distribution channels and thus

customers. Before entering a joint venture, some companies see it as an intermediate stage before acquiring the other partner. There are quite a few conflicts, which can arise between partners.

- The partners may have diverging goals
- Often there is double management; a problem is the matter of control.
- The different things they want to do with the acquired profits.
- The different cultures may lead to problems due to different values, beliefs and conventions. Careful study of the culture prior to starting a joint venture is vital.
- Often partners think that they are not treated right, they put more effort and resources in than they get out.
- Developing trust is an important but very time-consuming aspect.
- Both partners should develop an exit strategy. The contract should also be clear in specifying the conditions.

Management contracting – emphasizes the growing importance of services and management know-how. It often arises in situations where one company seeks the management know-how of another company with established experience in the field. Other management contracts can be part of a project or turnkey.

Section J

Hierarchical mode of entry – the firm completely owns and controls the foreign entry mode. An organization that is not 100% owned will be viewed as an export mode or an intermediate mode. The firm goes from one internationalisation stage to another:

- **Ethnocentric orientation.** Represented by the domestic-based sales representatives.
- **Polycentric orientation.** Represented by country subsidiaries.
- **Regiocentric orientation.** Represented by a region of the world.
- **Geocentric orientation.** Represented by the Transnational organization.
- **Domestic-**based sales representatives – one who resides in one country; often the home country.

With the resident sales representatives, foreign sales branch and foreign sales subsidiary, the actual performance of the sales functions is transferred to the foreign market. Often a greater customer commitment is shown. However, the firm should consider whether it is an order taker or maker and what the nature of the product is. Sales and marketing is often included in the subsidiary. A major advantage is that those subsidiaries are close to the customer and greater autonomy and responsibility can be transferred to these sub-units. They also may be tax advantageous.

If products are perceived to have a long-term potential in a specific foreign market, a company may consider to establish a sales and production subsidiary. However, a lot of money, commitment and time are needed. The main reasons for establishing some kind of local production are:

- *To defend existing business*
- *To gain new business*
- *To save costs*
- *To avoid government restrictions.*

When a product becomes mature and faces intense price competition, a company might shift the labour-intensive operations to LDCs (principle of international product life cycle, ILPC).

Imitation of value chain activities in a particular region is very hard for competitors, because it involves tacit knowledge and is socially complex. The coordination role of regional headquarters consists of ensuring 3 things:

- *On subsidiary does not harm another.*
- *Adequate synergies are fully identified and exploited across business and*

countries.
- *Country and business strategies are mutually coherent.*

The choice of a lead country is influenced by marketing competences, the quality of HRM, the strategic importance, the location of production, and the legal restrictions of host countries.

5 types of countries can be distinguished: *Platform countries, emerging countries, growth countries, and maturing and established countries.*
Depending on the experience and capabilities of a company, it will choose a particular entry and pathway to development.

Transnational organization – companies attempt tot coordinate and integrate operations across national boundaries so as to achieve potential synergies on a global scale. Characteristics are common R&D and frequent geographical exchange of HRs. The goal is to achieve global competitiveness. Things that should be known in order to be successful.

Two things a firm can do in order to get a hierarchical mode of entry:

- **Acquisitions** – rapid entry, and often access to distribution channels, customers etc. acquisitions may be horizontal, vertical, concentric or conglomerate.
- **Greenfield investments**. A firm is build from the ground up; you don't have the problems you will encounter with acquiring a firm. However, you have to do everything yourself; create distribution channels, customers etc.

Foreign divestment – withdraw from a host country. This often happens because profits are too low, or it can also be the result of expropriation or nationalization in the foreign country. 4 factors that may influence incentives and barriers to exit:

1. **Environmental stability**; competitively and politically. Perceived barriers to exit can be the R&D intensity or country risks.
2. **Governance issues.**

    - *Cultural distance*. Culturally close countries increase the barriers to exit.
    - *Experience*. Make wiser decisions.
    - *Joint venture and acquisition*. Lack of commitment in the parent company or companies may increase the incentive to exit.

3. **Strategic fit**. Economies of scale and scope will not be achieved.
4. **Attractiveness of current operations**. The economic performance of the company may be too low, or the economic growth by which the company might become a target for a takeover.

Section K

If you would like to offer a product for a foreign market, you certainly must examine first what contributes to the 'total' product offer. Three levels of products to offer:

1. ***Core product benefits***. First thing to determine (ex. Performance, image and technology).
2. ***Product attributes***. Examples are brand name, design, price etc.
3. ***Support services***. Examples are delivery, installation, guarantees etc.

The mix of product and service elements may vary substantially. Services are characterized by following features:

- **Perishability** – Services can't be stored for using them in the future.
- **Intangibility** – Services can't be touched or tested.
- **Heterogeneity** – Services are rarely the same, because people are involved.
- **Inseparability** – The 'production' of the service almost coincides with the consumption of the service.

Marketing services in a global environment is quite hard. You have to take into account different cultures; it is hard to exert control.

Services can be grouped into three broad categories of services:

1. *People processing*, people are part of the production process (education, passenger transportation, health care etc.)
2. *Possession processing*, improve the value of tangible objects (repair, equipment installation)
3. *Information-based services*, collecting, manipulating, interpreting and transmitting data to create value (banking, news etc.)

8 Categories of supplementary services, often accompanies the core service provider. It of course depends on the nature of the product and customer needs, which supplementary service must be offered:

1. **Consultation and advice** – try to make something tailored to the customers needs
2. **Order taking** – take into account the desired language and further needs
3. **Information** – get all the information
4. **Safekeeping** – look after the property of the customer
5. **Hospitality** – take care of the customers who are doing business
6. **Exceptions** –fulfil special requests, problem solving etc.
7. **Payment** – ease of payment is increasing

8. **Billing** – the bills must be clear to the customer

Business-to-business markets are different from customer markets because the buyers are often professional and larger. The relationship is often also closer because there are no intermediaries. The two businesses also often have technological links. Bonds between the buyer and seller make the firms more unwilling to break the relationship. Products pass through a series of stages. These stages are identified by sales performance and characterized by different levels of profitability, various degrees of competition and marketing programmes. The four stages of the product life cycle (PLC) are: Introduction, Growth, Maturity and Decline (or Recline). Efforts to improve the sales of the product are product improvements, reposition the perception, reach new users, promote. Not all the products follow all the stages of the PLC.
Many firms are multiproduct, serving multimarkets. Some products are young and other products are older. Different amounts of money are needed in order to make all the products profitable.

The concept of the PLC to international markets. Two approaches:

- **PLCs across countries: a microeconomic approach**. Due to different economic levels in different countries, a specific product can be in different PLC stages in different countries.
- **International product life cycle (IPLC**): a macroeconomic approach. It describes the diffusion process of an innovation across national boundaries. Demand first grows in the innovating country. Excess production will be exported to other countries. As the product matures, production will go to other industrialized countries and then to less developed countries.

Due to increasing international competition, time is becoming a key success factor. The PLCs are getting shorter. Development times are being greatly reduced as well. The R&D cycles and the PLCs are compressed. Time competition can be improved by early integration of customers and suppliers, multiskilled project teams, TQM, high degree of outsourcing etc.

The newness of the product has to dimensions: the newness to the international market and the newness to the company. International promotion is very important after having decided the standardization/adaptation route and newness of the product. 5 alternative and more specific approaches to product policy:

1. **Straight extension** – introduce a standardized product with the same promotion strategy throughout the world market (a global approach).
2. **Promotion adaptation** – leave a product unchanged but fine-tune promotional activities to take into account cultural difference between markets.
3. **Product adaptation** – Modify the product
4. **Dual adaptation** – Modify both products and promotion for each market. Often

used when the other stages have failed. It is often an expensive but necessary strategy.

5. **Product invention** – products are developed to meet the needs of the individual markets.

Product positioning is important in the successful marketing of any organization in any market. Often the desirable 'position' in the mind of the customer is created for the product. All the attributes are taken together in order to match the special requirements of specific market segments. The country of origin of a product has a considerable influence on the quality perception of that product. Marketing managers should take into account that the positioning of a product can vary from market to market.
It is important to establish in the consumer's perception exactly what the product stands for and how it differs from the competitor's products.

Brand equity deals with the value of the brand (this goes beyond the physical assets associated with its manufacture). 5 categories are:

- **Brand loyalty** – encourages customers to buy a certain brand.
- **Brand awareness**
- **Perceived quality**
- **Brand associations –** values linked.
- **Other proprietary brand assets**

A strong equity refers to the strength, depth, and character of the consumer-brand relationship quality (BRQ).

Branding decisions are made in order to distinguish a brand, create identification and awareness, guarantee a level of satisfaction and help with promotion of the product. (p. 415 + p. 416).

- **No brand**; the product and marketing costs will be low, but the product will not have any market identity.
- **Branding**; There will be brand awareness and may be loyalty, however the production and marketing costs will be higher. This can be divided into:
- **Private label**. Often better profit margins are attained (own labels strengthen the retailer's image with its customers), and promotional activities will be easy to fulfil, but there will be severe price competition. It can be both advantageous for the retailer and the manufacturer. For manufacturers it means that they don't need to do promotion of their product and they might start to sell internationally (if the retailer starts to sell internationally). However, the manufacturer hasn't got an own identity. The more private-label production grows as a percentage of total production, the more an analysis based on full costs becomes relevant.
- **Co-branding** – a form of cooperation between two or more brands with significant customer recognition, in which all the participants' brand names are

retained (the products are often complementary). Do this because of expected synergies. With ingredient branding, a very known ingredient is often used to create a product. This way they both benefit.

- **Manufacturer's own brand**. Customer loyalty is created. They will have a better control of distribution. The brand will need a lot of promotion, this is costly. This will be hard for small companies.

Single market

- **Single brand**. It is easy to market just one brand; you can also focus it more. But you need market homogeneity, and often there is limited shelf space (in retailers).
- **Multiple brands.** The marketing costs will be a lot higher, and you will not have economies of scales. There will be a competitive spirit. This is good when there are different market segments with different needs.

Multiple markets

- **Local brand.** The marketing and inventory costs will be higher, but the product will have local identification. The names are meaningful as well. Variations of quantity and quality are allowed across different markets.
- **Global brand (universal brand).** You can do this when the product has a good reputation. The marketing and advertising costs will not be as high. It will require quality and quantity consistency.

Products sold over electronic markets were grouped in: physical products and digital goods and services. Customisation of products and services is becoming more important. This of course can be easily done with Internet etc. Competitive markets are rapidly eroding margins due to price-based competition. Therefore, companies are seeking to enhance margins through customized offering based on:

- **Modularity** – organize complex products and process efficiently.
- **Organization** – dynamic customisation of products and services.
- **Intelligence** – try to create products and processes using the best possible modules, by exchanging information with customers.

Implications of Internet on future product innovation:

- **Design**. Data is gathered directly from the product
- **Service and support directly via the Internet.**
- **Customer relations**. Compare data of certain products with each other.
- **Logistics.** Just-In-Time deliveries are becoming more and more important. The Internet can be a really useful tool to improve this of a company.

- **Link to other products**. Products can be used as a sub-component in other products (Music Industry, Car industry).

So companies should possess the following characteristics:

- Innovative product development and strategic thinking
- Management of alliances
- New customer relations

Nowadays, companies are taking a broad approach to branding, integrating it with an overall advertising and marketing strategy.

Today's consumer is becoming environmentally conscious. The media is devoting more and more time and articles about the problem of pollution. Managers are paying more attention to the strategic importance of their environmental decisions. If companies fail to consider the environmental impact of strategic decisions, it may affect the financial stability of the firm and the ability of that firm to compete with others in the industry.

For the firm, the choice of strategic environmental posture will depend on how an organization wants to create value for its green customers and how change oriented its approach is. Actions or strategies can be: green product innovation, green product differentiation, pollution prevention (beyond compliance) and pollution prevention compliance.

Each step within the value-creating process must be assessed, in order to take into account the environmental impact and consequences. **Integrative environmental management** – every element in the corporate value chain is involved in minimization of the firm's total environmental impact. Eco-labelling schemes have been implemented in quite a few EU countries. This is an attempt to promote the use of products and production methods, which are less harmful to the environment. Strategic alliances (choosing the right partner is not easy) with environmental groups can be beneficial in the following ways:

- They provide positive publicity and reduce public criticism
- They educate consumers about key environmental issues for the firm and its product(s)
- They provide firms with access to environmental information
- They increase consumer confidence in green products and their claims
- They can give the marketer access to new markets.

ISO 9000 is the registration and certification of a manufacturer's quality system. It ensures that products are produced using certified methods of manufacture. The five standards are:

- **ISO 9000**
- **ISO 9001** – the suppliers must fulfil the requirements during all phases of operation
- **ISO 9002** is a subset of ISO 9001, production, installation and servicing requirements should be complied to.
- **ISO 9003** – standard of quality assurance for firms only involved in final inspection and testing of products.
- **ISO 9004** – guidelines by which a company can implement and develop an effective quality management system.

After the company has been assessed, it will get a certification. Every four years, the company will be assessed again.

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Section L

Pricing policy is one of the most important elements of the marketing mix. It includes setting the initial price, and changing the price of a product from time to time. Pricing decisions in international markets, are a lot more complex than the pricing decisions in domestic markets. You need to take into account, exchange rates, inflations rates etc. It is important that the pricing strategies and actions are integrated with the other elements of the global marketing mix.

Factors that influence pricing decisions:

Internal

- *Firm-level factors*. It is influenced by the corporate philosophy, organization and managerial policies. The short-term use of pricing in the form of discounts, product offers and reductions is often emphasized by managers at the expense of its strategic role.
- *Product factors*. These include the specific features of the product and the availability of substitutes. These factors will have a large impact on the stage of the PLC. The type of product / service is also important. Due to additional shipping, insurance and distribution charges, exporting costs increase!
  An exporter should be aware of price escalation! The price must not be set too high. Avoid price escalation by:
  1. Rationalizing the distribution process (less links)
  2. Lower export price from the factory
  3. Establish a local production of a product in export market
  4. Pressurize channel members to accept lower profit margins.

External

- *Market factors.* A very important factor in the foreign market is the purchasing power of the customers. Competitors in the same market also have a strong influence on the height of the price level. For the price setter, the most important variable is the cost of producing the product. Price sensitivity of customers can be decreased by having more differentiated products, higher quality, high-perceived benefit, and small proportion of the customer's expenditure.
- *Environmental factors*. These factors are uncontrollable variables in the foreign market. Governments can have influence on the price by regulations and taxes. Exchange rates can also be a problem. It may fluctuate heavily.

Different international pricing strategies are available in order to get profits.

Penetration pricing. Offer products at low prices in order to stimulate market growth and capture market shares. This approach requires mass markets. The price must not be set too low, in order to remain credible to the customers. Motives for low price products:

Intense competition, lower income levels, exporting is not the main revenue source of the firm (only additional).

- **Market pricing.** Similar products already exist. Price is based on other competitors' prices.
- **Skimming.** The price of a product will be very high. This way you can try to achieve a high contribution in a short time. The product has to be unique. The more segments targeted, the lower the price will be. Problems that could arise are local competition (for firms with small market share), after sales service, the difference in price between home and host market.

Prices can be changed. If such a decisions is made, related changes must also be taken into account. The timing of the price changes is as important as the changes themselves. Price changes usually follow changes in the product's stage in the life cycle. Due to the experience curve, the costs at which a product will be made shall decrease. Therefore, when the product is ageing, the price of the product can be decreased as well. **Shakeout phase** – inefficient producers will be shaken out by rapidly falling market prices.

Across-product pricing – various items in the line may be differentiated by pricing them appropriately to indicate different versions. Products, which then are priced higher, can make up the difference for the cheap products.

Buy in – follow on strategy – the first product they sell is cheap. The products, which are sold after this product, will be much higher. You stimulate the people to start buying a product.

Coordinating prices between countries is a difficult problem. It is hard to position yourself in a specific market and after that, maximize profitability by adept your pricing. There are two basic approaches:

- **Price standardization** – set the price after it leaves the factory. The price for the product will be the same anywhere.
- **Price differentiation** – each local subsidiary or partner can set the price appropriate for the market they are in.

Causes of price differentials are differences in regulations, competition, distribution structures and consumer behavior. Currency fluctuations can also influence short-term price differences. Prices standardization across Europe is due to international buying

power of cross-European retail groups and parallel imports/grey markets. Even though the euro is now present, price differences can still be justified by transportation costs, short-term exchange rate fluctuations etc.

Transfer prices – products, which are charged for interacompany movement of goods and services. They are internal to the company. The objective is to ensure that the transfer price paid optimises corporate rather than divisional objectives. Three basic approaches to transfer pricing:

- **Transfer at cost** – the transfer price is set at the level of the production cost. The production centre is evaluated on efficiency parameters rather than profitability.
- **Transfer at arm's length** – the international division is charged the same as any buyer outside the firm
- **Transfer at cost plus –** profits are split between the production and international division.

A good transfer-pricing method should consider total corporate profile and encourage divisional cooperation.

The price of the product can be stated in the local currency, domestic currency or a currency of a third country (dollar). Good currency management may be a means of gaining additional profits. Customers often prefer products quoted in their own currency. This way they can make competitive comparisons and know exactly what the eventual price will be.

Because there is one currency in Europe at the moment, on-line shopping will experience a tremendous growth. Everything is stated in the same currency, it is just as easy to buy something across the street as in another country. Prices are more transparent, competition has to focus on price, inflation and interest rate stability will be established etc. The single currency increases competition, lower transaction costs and bring about greater certainty. Especially marketing and pricing strategies need rethinking because every price can be compared very easily all over Europe.

A price quotation describes a specific product, states the price for the product as well as a specified delivery location, sets the time of shipment and specifies payment terms. Incoterms are used to define the responsibilities of buyer and seller in contracts. Export price quotations are important because they spell out the legal and cost responsibilities of the buyer and seller.

A few important terms:

- **Ex works (EXW)** – price quoted by the seller applies at a specified point of origin.

- **Free alongside ship (FAS)** – seller must provide for delivery of the goods free alongside the carrier.
- **Free on board (FOB)** – all costs include the loading of goods on the carrier.
- **Cost and freight (CFR)** – all costs include the delivery to place of destination.
- **Cost, insurance, freight (CIF)** – the seller must also pay the necessary insurance.
- **Delivered Ex Quay (DEQ)** – the seller is responsible for all the costs, which are needed to deliver the goods at a specified dock anywhere in the world.
- **Delivered duty paid (DDP)** – the exporter is thus responsible for paying any import duties and costs of unloading and inland transport in the importing country.

For detailed information about Incoterms look at **P. 467**

Factors, which will be taken into consideration in negotiating terms of payment for goods to be shipped:

- *Practices in the industry*
- *Terms offered by competitors*
- *Relative strength of the buyer and the seller*

The most favourable term to the exporter is cash in advance because it relieves the exporter of all risk and allows for immediate use of the money. However, usually there is low trust.

A letter of credit is used very often. Characteristics of a letter of credit:

- *Payment is based on documents*
- *They ensure payment*
- *It is a form of security*
- *Used for settlement of international commercial transactions*

The customer starts the process by an enquire for goods. The supplier confirms the price and terms (pro-forma invoice). The customer instructs the bank to open a letter of credit with an amount specified in the pro-forma invoice. This L/C will be confirmed by the bank of the supplier. After shipment, the shipping documents are returned to the supplier in order to show that the products have been arrived. These documents will certify payment.

Three forms of a L/C:

- **Confirmed irrevocable L/C** – the bank in the seller's country has added its own undertaking to that of the issuing bank. Often much more costly.

- **Revocable L/C –** the order can be cancelled without notice to the seller up to moment of payment by bank.
- **Irrevocable but unconfirmed L/C** – as good as the credit status of the establishing bank and the willingness of the buyer's country to allow the required use of foreign exchange.

Two types of bill of exchange:

- **Documents against acceptance (time draft)** – credit is extended to the buyer on the basis of the buyer's acceptance of the draft calling for payment within a specified time and place.
- **Documents against payment (sight draft)** – buyer makes payment for the face value of the draft before receiving the documents conveying title to the merchandise.

An open account is that the exporter ships the goods without documents calling for payment, other than the invoice. It is very simple, but there is a lot of uncertainty. Consignment means that the exporter retains title of the goods until the importer sells them. Often the financial risk and burden are greatest.

Sources of export finance:

- **Commercial banks** – have an overdraft facility with the exporter's own bank
- **Factoring** – Sell export debts for immediate cash.
- **Export credit insurance** – often available through governmental export credit agencies or through private insurers. They often insure against political risk and commercial risk
- **Forfeiting** – exporters of capital goods can obtain medium-term finance; the buyer pays the amount over a few years.
- **Bonding** – a bond or guarantee issued to buyer (by third party). It guarantees compliance of obligations.
- **Counter-trade**
    - *Barter* – exchange of goods for goods.
    - *Compensation deal* – export of goods in one redirection. The exporter receives cash, and needs to buy some of the buyer's goods.
    - *Buy-back agreement* – long-term agreements. Products are sold (machinery); some of the output is bought back.

- **Leasing** – the exporter receives prompt payment for goods from the leasing company.

Section M

The distribution of your products into a foreign market is not less challenging than choosing a strategy to get the product into foreign market. Data networks are important for customers and suppliers. They can have direct contact with each other. New channels of distribution are opening up opportunities for companies to cut costs or to improve their effectiveness in reaching specific market segments. It is very hard for companies to take full advantage of all the distribution channels.

External determinants in a market of channel decisions:

- **Nature of the product.** Depending whether the product is low or high priced, whether they are high or low turnover convenience products. You should have an (non-) intensive distribution network. Also the costs of transportation and warehousing play a role.
- **The characteristics of the customer.** Base you channel decisions on the size, geographic distribution, shopping habits, outlet preference and usage patterns of customer groups.
- **Nature of the demand / location.** Know where the product is used for, in which circumstances.
- **Competition.** Choose a channel by also watching your competitors. May be choosing a different channel in order to create a competitive advantage.
- **Legal regulations / local business practices.** Also take into account the legal regulations in a certain country. Also local business practices can interfere with your efficiency and productivity.

Decisions regarding the structure of the distribution channels:

- **Market coverage.** You want reach the customers you want to reach. This depends on the geographical areas etc. There are 3 approaches:
    - **Intensive coverage –** Try to reach as many customers by distributing through every type of intermediary.
    - **Selective coverage –** Choose specific intermediaries for each area.
    - **Exclusive coverage –** Choose only one intermediary.

- **Control / costs.** Channel control is very important for international marketers. The international brands must not be ‘devaluated’ by a small mistake in just one market. When using intermediaries, you loose some control. You have to make a trade off in deciding whether you would like to use an intermediary or your own distribution channel.
- **Channel length.** Determined by the number of levels or different types of

intermediaries.

- **Degree of integration.** Channel integration – the process of incorporating all channel members into one channel system and uniting them under one leadership and one set of goals. This can be achieved by acquisitions or thigh cooperation. There are two types:
    - **Horizontal integration**
    - **Vertical integration**

  You can also have forward and backward integration.

The management and control of the distribution channels:

- **Screen and select the intermediaries.** Compare all the candidates on specific criteria. The criteria you use must depend on the nature of a firm's business and the distribution objectives in a market. Often distributors with competitive products are not chosen.
- **Contract.** When a distributor is found, an agreement is drawn up. Often time limits and minimum sales levels are discussed. Of course, names, addresses, dates, duration etc. are all taken up in the agreement. Often there is a trial period for both companies. Distribution agreements are relatively short. Payment is important and should be well considered. Normally the distributor gets 10-20% of the amount sold. Products and conditions of sale also need to be agreed on.
- **Motivate**. Motivation is important, because the company does not own the distributor. The company may offer monetary and psychological rewards. It is important to keep in regular contact with agents and distributors.
- **Control.** Control should be sought through the common development of written performance objectives. Evaluation of performance has to be done against the changing environment.
- **Terminate.** This can be the case when the international marketer has established a sales subsidiary in the country an when the international marketer is not happy with the performance of the intermediary. The termination conditions have to be very well specified. Otherwise, it might be time consuming and very costly.

Logistics – the movement of goods and services between supplier(s) and end users. There are two phases, which are important; the ***materials management*** and ***physical distribution***. The primary areas of concerns are the things of the second phase:

Order handling. This includes the sale of the product, the contact with the bank (and payment), exporting of product, and contact with the distributor. Export documents are a bill of lading, letter of credit, export declaration, certificate of origin etc. Order cycles are shortened by rapid processing of orders (use of EDI).

Transportation. Four main modes of transportation:

- **Road.** Efficient for short distances, flexible, time consuming
- **Water.** Low-costs, many goods, slow
- **Air.** Expensive, only for high-value items, long distances
- **Rail.** Minimal time and costs

Freight forwarders – relieve the producer of most of the burdens of distribution across national borders. General activities are coordination of transport services, preparation and processing, warehousing and expert advice.

Inventory and storage / warehousing. Inventory control is important, because it can be very expensive to have a large inventory. The level of inventory held depends on:

- *Order cycle time* – the total time that passes between the placement of an order by a customer and the receipt of the goods.
- *Customer service levels* – the ability to fulfil customer orders within a certain time. The faster you can fulfil it, the lower the inventory will be.

Warehousing encompasses a broad range of other activities such as assembling; breaking bulk shipments, prepare products for reshipment etc. Their main issues are focussing on the location of the customer, the pattern of existing and future demands, the service level required.

Packaging. A good balance needs to be achieved between the high costs of the substantial export packaging required to eliminate all damage, and the price and profit implications that this has for the customer and the exporter.

International firms have a growing preference to employ outside logistical expertise. Then they can only concentrate on their operations. A main advantage of third-party logistics is the in-place network complete with resources and experience.

The Internet has power to change the balance of power among consumers, retailers, distributors, manufacturers and service providers. There are 4 Internet distribution strategies that can be adopted by the manufacturers:

1. *Provide only product information on the Internet.*
2. *Leave the Internet business for resellers. The global nature of the Internet creates price transparency in most markets.*
3. *Leave the Internet business for the manufacturer. This way, a manufacturer might get insight into the Internet business. Because manufacturers normally not sell products to small customers, this way they can do it.*

4. *Open Internet business to everybody. Manufacturers and resellers can use it. Let the consumer decide which one is the best.*

The integration of the world economy, almost affects any business, also the retailing business. A major reason for the lack of growth of large-scale retailing in these countries is legislation. Legislative conditions differ anywhere in the world. They range from day and hours of opening from the amount of competition etc.

Problems for international retailers are often problems with customers. In every market they are different qua taste, habits etc. Resources in every country are different as well. In one country it is easier to use resources than in another country. Expenses for housing can be very expensive; legislation can be very complex etc.
You can also internationalise by doing so in different stages.

Vertical marketing systems have been closed system for a too long time. **Power in channel relationship** – the ability of a channel member to control marketing decision variables of any other member in a channel at a different level of distribution. More merchandise is controlled by fewer and fewer retailers. Therefore traditional channel management is no longer beneficial.

A joint strategy can be successful. Manufacturers and retailers have to work together then at every level**. Key accounts might be introduced** – large retail chains with a large turnover (they decide quantity and price on behalf of different outlets).

Cross-border retailer alliances are more and more emerging between Western European retailers. Cross border central buying can be a relevant starting point for both manufacturers and retailers.

Grey marketing (parallel importing) – importing and selling of products through market distribution channels, which are not authorized by the manufacturing. It often occurs because of the fluctuating value of currencies between different countries. The problem of grey marketing can be solved by seeking legal redress and changing the marketing mix (these involve the product strategy, pricing strategy and warranty strategy).

Section N

Communication is a very important decision about the global marketing programme. If the seller already has a relationship, often the imitative comes from the buyer. Effective marketing communication has 4 elements:

- Sender
- Message
- Communication channel
- Receiver

There are other factors, which affect the communication situation like:
Language differences (have a good translation of your brand name!), Economic differences, Sociocultural differences, Legal and regulatory conditions, Competitive differences.

Major forms of promotion:

1. Public relations

They seek to enhance corporate image building and influence favourable media treatment. It involves internal and external communication. Target groups likely include the main stakeholder groups. Target audience is usually small, therefore inexpensive to reach. Think of sponsorships, press releases, lobbying and announcements of the firm's products. It also includes anticipating criticism.

2. ***Advertising.***

It is a one way; very visible process. Many people can be reached effectively. Different phases in advertising:

Objective setting. The objectives for most advertising campaigns are the same; increase sales and obtain new customers.

Budget decisions. The budget has to be very well looked at. There are a few approaches regarding budgets:

- *Percentage of sales* – advertising expenditure is directly linked to measures of profit. This way, it seems that the markets get advertising what they deserve and the company can always afford it. However, it does not take into account future performances. New products can't be introduced and there is too much looked at just the sales (they don't take into account other things).
- *Competitive parity approach* – an estimation and duplication of the

amount the company thinks that the competitors use.
- *Objective and task approach* – determine the advertising objectives and then ascertain the tasks needed to attain these objectives.

Message decisions. A decision must be made about what unique selling proposition (USP) needs to be communicated (take into account the country you are in). It is very easy to standardize your messages for each market.
Unfortunately, complete standardization is rarely attainable. It will however decrease cost, by centralizing advertising campaigns. Adapting to local variances might be costly again.

Media decisions. It is very important to decided whether to use a mass or target approach. The media selected should be the result of a careful fit of local advertising objectives, media attributes and target market characteristics. Other criteria:

- *Reach* – how many people will be reached by a specific media selection. High reach is important when entering a new market, or producing a new product.
- *Frequency* – the average number of time a person is exposed to the advertisement. High brand awareness already exists. *A media's gross rating points (GRPs)* – the result of multiplying its reach by the frequency with which an advertisement appears within the media over a certain period.
- *Impact* – What the reaction is to the advertisement.
- Of course the cost of an advertisement campaign has to be taken into account. Different media types are: Television, Radio, Newspaper, Magazines, Cinema and outdoor advertising (posters / billboards / shop signs etc.).

Agency selection. Often, advertisement agencies are selected for advice and practical assistance. An international or a local advertisement agency can be used. Criteria to select an agency include:

- *Policy of the company*
- *Nature of the advertising*
- *Type of product.* Is it for International markets or just a domestic market?

Advertising evaluation. It can be very difficult to transfer testing methods used in domestic markets to foreign markets. Sales results are often used as a measure. Some testing procedures:

- *Pretesting TV advertisements.* Show respondents the advertisement, and ask them questions about it. Because the environment is often artificial, the results may be inaccurate.

- *Pretesting print advertisements.* Use two different versions. Check the responds on the different versions.
- *Testing finished advertisements.* Awareness testing – this measures the effectiveness of an advertising campaign after it has begun and is in progress. Personal interviews can be used. It is also useful to compare your outcomes with a competing firm.

3. Sales promotion

Defined as selling activities that do not fall directly into the advertising or personal selling category. They often include demonstrations, leaflets, free trials, contests, coupons, samples etc. it is a short-term effort directed primarily to the consumer and / or retailer. Try to make people buy something, get them into a shop etc. Sales promotion is expanding because of:

- **Greater competition among retailers**
- **Higher levels of brand awareness among consumers**
- **Greater integration of sales promotion**
- **Improved retail technology**

Success of sales promotion depends on local adaptation.

4. Personal Selling

Advertising is a one-way communication process. Personal selling is a two-way communication process with immediate feedback. It is an effective way to sell products; but it is expensive. In countries where labour costs are very low, personal selling will be used more often.

- **Assess sales force effectiveness**, to find out the selling effort is structured for effective market coverage. The right people must be used, with the right skills. Find out whether strong guidance is provided. Try to have adequate sales support in place and are the sales people properly motivated by use of sales compensation.
- **International sales force organization**. Firms often organize their sales forces similarly to their domestic structures. Quite a few firms organize their international sales force along simple geographical territories within a given country or region. The sales force is organized by geography, product, customer, or some combination of these.
- **Type of international sales force**. A company can have 3 options:

  - *Third country national* – Employees transferred from one country to another.
  - *Expatriate salespersons* – Are viewed favourably; they are already

familiar with the firm.
  - *Host country nationals* – This way they can gain goodwill. Governments will be happy and the company is likely to be integrated fast.
- **Trade fairs and exhibitions.** Trade fairs (TFs) have been regarded as a personal selling tool. They also offer international firms the opportunity to gather vital information quickly, easily and cheaply.

  - *Advantages.* Many potential customers can be addressed in a short period. You can show your prototypes. They provide the chance for market research and collecting competitive intelligence.
  - *Disadvantages.* High costs in terms of time to arrange everything. It is hard to choose the most appropriate fairs. Coordination problems may arise. Practical problems can arise; attract the wrong visitors, most visitors browse rather than buy.

Whether using a TF depends on the type of business relationship it wants to develop with a particular country.

5. **Direct marketing**

This strategy is used in order to get a direct response from present or prospective customers. Often direct mail, telephone selling and marketing via the Internet are used due to very low costs and wide coverage. Direct mail offers a flexible, selective and potentially highly cost-effective means of reaching foreign consumers. Telemarketing often focuses on b2b contacts.

In reality, internationally oriented firms use a combinations strategy when marketing; localize advertisement for some markets and standardize advertisements for other markets.

Market communication strategies change dramatically in the on-line world. On the Internet, it is very easy to communicate a message to large numbers of people. Web audience development can be done six steps:

1. **Integration.** The website of the company must fit well into the company's overall business strategy. All marketing and sales activities should work together.
2. **Design requirements that are unique.** Try to have the best-designed information package. This will generate a competitive advantage. Design should use clear, constant navigational cues that make it easy for visitors to determine where they are within the site structure.
3. **Techniques for audience creation.** 4 ways:

- *Search engines*
- *Editorial placement in new media*; online new media.
- *Strategic linking*
- *Interactive public relations.* Use newsgroups, mailing lists, forums, bulletin boards and other virtual communities.

4. Methods of advertising the site:

- *Banner advertising.* Companies can target ads with far greater precision than with any other medium.
- *Sponsorships*
- *Barter advertising;* banner exchanges.

5. Effective promotions that attract attention:

Have contests, people would like to win something. Loyalty programmes often keep people at the same site. On-line events also attract many people.

6. **Measurement and analysis to ensure ongoing success.**

Measurement is relatively easy with Internet. Very easily can be determined where the visitors come from, who they are etc. Many sites also post their telephone numbers or e-mail addresses. This way it is very easy for consumers to contact the company.

Section O

An important characteristic that distinguishes international sales negotiations with domestic negotiations is the different cultural background the representatives have. The most fundamental gap influencing the interaction between buyer and seller is the difference between their respective cultural backgrounds. This often also increases the transaction costs. This can be quite high in cross-cultural negotiations. Because both the buyer and the seller will adapt their own behaviour in such a way that they think it is acceptable to the other party. This will reduce the gap. Complete understanding will never be achieved.

Face-to-face communications skills remain an important topic in international sales training. Important is to find out how the other thinks and know your own strengths and weaknesses.

A firm should examine the persons who will go abroad quite well, if they are able to deal with culture shocks. They could also use sales force of the host country or third country nationals. Selection should be well considered. The person should have good foreign-language skills, general relational abilities, emotional stability, educational background etc. Family issues that must be considered include marital stability, the overall emotional stability of family members, and family cohesiveness.

The persons also need to go on training. It is very important to provide a solid support network from the head office so that the expatriate is not simply left alone (monetary benefits, communication and periodic travel home). Support is also needed when persons come back from a mission abroad. They need to repatriate.

Difference between lubrication and bribery:

- **Lubrication** – often someone is paid to do a job more rapidly or more efficiently.
- **Bribery** – often involves large sums of money.

China

Chinese people attach a lot of importance to the personal connection. The leadership style in Chinese family businesses (CFBs) is authoritarian. It is often a centralised entity. Most companies are state enterprises. The basic rules for negotiating successfully with the Chinese:

- *Language of business*
- *The initial contact*. Know your counterparts well.
- *Building relationships.*
- *Hierarchy and status in China*. Older people have higher status.
- *Time-consuming negotiations*. Take enough time.
- *Maintaining surface harmony*. Avoid anger or displays of temper.
- *Concern with face*. Don't criticise your counterparts in public.
- *Verbal communication is important*
- *Non-verbal communication*. China is a low-contact culture.
- *The bargaining range*. Leave room for manoeuvre.
- *Role of the contract*. Relation is seen as more important.
- *Facilitation payments / inspection tours overseas.*
- *Conflict management*. Avoid use of litigation to settle disputes.

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