INTERNATIONAL MARKETING MANAGEMENT

TEXT AND CASES

U.C. Mathur

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Dedicated to Bina
my best friend and wife
with gratitude and love.

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List of Abbreviations

AAA	American Arbitration Association
AE	account executive
AMA	American Marketing Association
ASEAN	Association for South East Asian Nations
BITs	bilateral investment treaties
CIS	Commonwealth of Independent Countries
CPR	core process reengineering
CSF	critical success factors
DAVP	Directorate of Advertising & Visual Publicity
DGFIPC	Dongguan Foreign Investment Promotion Centre
DGS&D	Director General of Supply and Disposals
DSL	digital subscriber line
EOUs	export-oriented units
EPZs	export processing zones
EU	European Union
EVA	economic value added
FDI	foreign direct investment
FMCG	fast moving consumer goods
FTAs	free-trade areas
FTP	file transfer protocol
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GE	graphite electrodes
GNP	gross national product
HDZ	Harbin Development Zone
HECPB	Harbin Economic Cooperation Promotion Bureau
HEG	Hindustan Electro-Graphites
HIPA	Heilongjiang Investment Promotion Agency
HSBC	Hong Kong and Shanghai Banking Corporation
IBRD	International Bank for Reconstruction and Development
ICC	International Chamber of Commerce
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IP	Internet protocol
ISPs	Internet service providers

JIT	just in time
LANs	local area networks
LC	letter of credit
MIME	multipurpose Internet mail extensions
MIS	market information system
MIGA	Multilateral Investment Guarantee Agency
MNC	multinational corporation
MRTPC	Monopolies and Restrictive Trade Practices Commission
NAFTA	North Atlantic Free Trade Agreement
NSF	National Science Foundation
OTS	opportunity to see
PLC	product life cycle
POP	point of purchase
RBI	Reserve Bank of India
R&D	research and development
ROI	return on investment
RTA	regional trade agreement
SAARC	South Asian Association for Regional Cooperation
SCA	sustainable competitive advantage
SEZs	special economic zones
SPS	sanitary and phytosanitary measures
TCM	total customer management
TCP	transmission control protocol
TRPs	television rating points
TQM	total quality management
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Fund
UNIDO	United Nations Industrial Development Organization
URL	Uniform Resource Locator
USP	unique selling proposition
VoIP	voice over IP
VRS	voluntary retirement scheme
WTO	World Trade Organization

Preface

Indian business has to accept the fact that it can no longer remain isolated from the rest of the world as international players are increasingly making inroads into its territory and creating unprecedented competitive problems for business. The wise have reconciled to the situation and, in fact, shaken hands with foreign players for mutual benefit. The country has made great strides in joining the market economy and has emerged as a major voice in the comity of nations and world bodies like the World Trade Organization (WTO), as several Indian companies have already become and others are on their way to becoming multinational corporations (MNCs).

Companies planning to enter the arena of international marketing need to be fully aware of the way host countries like to do business, their cultural ethos and parameters of social contacts in business. This book contains fact files on these issues for 29 selected countries. It is recommended that students study these fact files. However, as the general business environment and the political scenario keep changing, they would do well in finding out the latest through organised market research or through coordinated efforts with non-competing companies doing business there and through the embassies in these countries. These should form guidelines for similar research when companies plan international marketing in other countries.

With the full convertibility of the rupee even in capital account in the offing, no business can consider itself removed from the process of internationalisation of business. This process started in 1991, when liberalisation, privatisation and globalisation emerged as the political policies of the government. It was the political will of the government of that time that manifested itself in the economic reforms, which have been the hallmark of the Indian business scene since then.

Managers of tomorrow are, therefore, required to be fully aware of the art and science of international marketing. It is for this reason that the subject has been in focus in most business schools of repute. This book attempts to make learning the nuances of the subject easy to understand from the viewpoint of students.

International trade, economic free trade zones, embargoes on exports, tariff and non-tariff barriers that companies face overseas form a major part of the book. Besides, the role of international organisations under the aegis of the United Nations Organization (UNO) have been given due importance. Students can learn how companies can make use of these organisations to their advantage from this book.

The systems and the forms used in international marketing in India are discussed in Chapter 4 ('International Trading'). The existing forms have been discussed here. Each group of products has its own export promotion council. A list of these councils has been given in the book. These councils provide detailed information to its members. The address details of these councils, however, may need verification as these keep changing.

The stakeholders of a company are the essential partners who need careful nurturing by the company. Considering their importance in international marketing, a separate chapter has been provided to study the various facets associated with stakeholders (see Chapter 11).

An attempt has been made to make the book interactive. To this end, tasks have been provided for students that can be performed with some guidance from the faculty teaching the subject.

Management games dealing with the different aspects of international marketing have been carefully selected and included at the end of some of the chapters. The teaching faculty may divide the students into teams of four to six members and get them to perform the tasks of these games. The faculty should guide the students in these games and evaluate their progress. This can form part of the students' internal assessment process. These games also provide a hands-on learning experience to the students.

Marketing functions in the international arena depend on the business environment in the host countries, including their cultural ethos as buyer behaviour and pattern is dependent on the economic levels, political systems prevalent in the host countries and their competitive environment. Companies need to know how to scan these factors before planning international forays.

Success in international marketing comes from the following areas:

1. Knowledge of the demand pattern across several countries.
2. Selection of the right country or countries for doing business with.
3. Understanding the general and competitive business environments of the chosen countries.
4. Establishing and then understanding the company's core competencies that can create competitive advantage in the host country.
5. Estimating the resources needed for getting into international markets and their proper deployment.
6. Time-bound marketing programmes with built-in monitory systems.

This book contains topical, relevant and thought-provoking case studies for students. At the beginning of the case studies, methods for attempting case studies have been provided. The case studies are meant to take the students into a virtual corporate world, to make learning a practical and interesting exercise.

This book tries to create a knowledge base for these topics, with interactive plans enabling both the students and the faculty to make the learning process easy and interesting. The book deals with the subject of international marketing in a lucid style using simple language for the benefit of students. Chapter 21 ('International Marketing Audit') will help students gain a practical understanding of how to conduct an international marketing audit by providing them the example of an actual international marketing company.

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U.C. Mathur

1 International Marketing: An Introduction

AIMS AND OUTCOMES OF THE CHAPTER

The students will learn the basic concepts of International Marketing, which will become the foundation for understanding the subject details unfolding in the subsequent chapters. It offers a broad spectrum of the various topics covered in detail later on. The chapter is meant to whet the students' appetite for the subtleties of the highly relevant and important subject in an easy-to-understand language.

INTRODUCTION

This chapter introduces students to the different aspects of international marketing that will enable them to learn its various nuances with relative ease. Students will learn about the major differences between domestic and international marketing. The methods of scanning the business and competitive environment are discussed in this chapter. This will help students to plan marketing in a number of host countries with diverse cultural backgrounds.

The students are expected to have a healthy curiosity of the subject as they master the art and science of international marketing. They will learn about the theories of international marketing and the United Nations (UN) bodies that help in international marketing including the World Trade Organization (WTO). Real life case studies have been provided at the end of each chapter that both simulate the corporate world as well as stimulate the student's psyche into probing the subtleties of international marketing. The systems of coordinating foreign exchange and the organisations that facilitate international marketing have been given major importance. Countries and businesses are now increasingly focusing on international marketing and this forms the theme of the book. The selection process of the countries and strategic planning for going international take away the limitations created by traditional minds.

The discipline of studying international marketing is meant to provide students and practitioners of marketing with a systematic methodology and intellectual framework to understand and work in the global marketplace and to enjoy and exploit the underlying unity within the diversity of the laws of business found in different countries.

It is important for students to learn the basics of international marketing, international business, exports and international trade.

International business, today covers areas like outsourcing, third country manufacturing and manpower deployment in different countries. International trade covers the areas of imports and exports, including transfer of technology and international financing for projects. International marketing takes care of functions like international market research, selection of products, pricing, distribution channels, advertising and promotion in selected countries.

International marketing differs from local marketing as it has to deal with the rules and regulations of the host countries as well as take care of the cultural diversities that exist between nations as companies try to take advantage of these various cultures, by promoting ethnic products that have exotic value for the host-country buyers. Multinational corporations (MNCs) have to understand the work pattern of business in several countries and they have the option of retaining a global focus in all the locations they operate from. They can also arrange to have multi-domestic operations where each host country gets to have separate work system as desirable and conducive to the host country. Indian business establishments have several advantages in international markets due to low-cost labour, availability of raw materials and trained manpower.

OBJECTIVES OF STUDYING INTERNATIONAL MARKETING

1. To develop skills in analysing marketing challenges and opportunities.
2. To develop decision-making capabilities in marketing.
3. To gain experience in developing marketing strategies and plans that integrate functional policies through concrete, actionable recommendations.

4. To develop the verbal and written skills for communicating the recommendations, conclusions and analytical points.
5. To introduce students to the latest thinking in the field of marketing theory.
6. To develop new principles of marketing that are ethical, life supporting, nourishing and evolutionary.
7. To develop both the intuition and analytical skills necessary for success in business.

International marketing has gained in importance in the last decade because most countries have opted for globalisation and have embraced the market economy. In India, the marketing scenario has changed dramatically since 1991, with international players entering the market with better brands and ostensibly better products. It is the lure of foreign goods that tempts most Indians. Besides, with the partial convertibility of Rupee, Indian companies find marketing overseas lucrative as well as an excellent image-building venture.

India has been flooded with so many international players that for some, even survival has become a difficult task. If these companies are guided properly, they can plan overseas marketing; while at times even hitting the foreign companies that have taken over their market share in their home countries in a fashion by organising Cross Parry. (Cross Parry can be defined as taking action against competition by hitting them in their strongholds.)

Some Definitions

For the purpose of this book the following definitions would hold good:

Home country: The country whose company wants to go for overseas marketing.
Host country: The country where the company wants to market its products.

In the last century, especially the period before 1991, Indian companies found the local markets profitable, growing and with low levels of competition. Surprisingly, in spite of the various incentives like cash incentives (provided to help Indian exporters match international prices), duty drawbacks (which are still given to cover customs duty, excise duty and the like), and replenishment licences, most companies preferred to operate only in the Indian markets.

However, since 1991, with the changes being brought about by the policies of the government, Indian business and industry have woken up to the realities of international marketing and their associated challenges. Companies have realised that no country can remain in isolation or as an island.

Companies have to take the following decisions as they plan international marketing:

1. Countries they want to do business with.
2. The level of involvement they want to have with respect to financial, human, managerial and technological inputs in the host country.
3. The marketing organisation best suited to the host country.
4. Advertising and promotional plans.
5. Selection of the distribution channels.
6. Optimising resource usage (human resources, finance, information and technology) with better allocation and monitoring.
7. Global or multi-domestic management positioning.

INTERNATIONAL MARKETING CONCEPTS

Companies venturing into international marketing have to decide which of the following plans they want to implement in the host country:

1. Ethnocentric
2. Polycentric
3. Region-centric
4. Geocentric

Ethnocentric plans take into account only the host country's cultural ambience, while polycentric plans consider the cultural values of both the host country and the home country. Region-centric plans consider the culture only of the region in which the company is operating and a geocentric view takes the cultural ethos of the geographic coverage the company plans to have.

GOING INTERNATIONAL

Companies need to operate within a general environment framework as follows:

1. Demographic
2. Social
3. Cultural
4. Political
5. Legal
6. Macroeconomic
7. Technology
8. Global

These factors need to be studied, assessed, screened and monitored in the context of the host country for correct planning of marketing strategies.

Demographic Factors

Demographic data like population dispersion in towns and villages, income levels of families, sex ratios and affiliations to religious groups are available through the census of the host country. Shifts of population from villages to towns, from small towns to metro towns provide business opportunities, which no marketer can afford to miss. For a start, shifts in population indicate a need for low-cost housing, clothing, transportation, eateries and the like.

Social Factors

Social factors like the increase in the number of working women in towns at all levels of income have given rise to a big boost in the demand for time-saving equipments like washing machines, vacuum cleaners, microwave ovens and precooked foods. As women are coming out of homes, better dresses, cosmetics, health gyms are required. With families earning a double income, leisure time activity products, holiday packages and travel are becoming fast growing sectors.

Cultural Factors

India is a land of rich cultural heritage. Marketeers and advertisers take full advantage of the knowledge of the buying season in different parts of the country. During Deepavali, Hindus buy new clothes, household articles and exchange gifts. Muslims do the same around Eid, while Christians shop a lot around Christmas. The cultural ethos provides innumerable themes for promoting sales. India is a vast country, where more than 20 languages are spoken. It is home to several religions and varied cultures and subcultures. For example, in Punjab, there is a Punjabi culture and within it is the Sikh subculture. Karnataka has a Kannad culture, while the Coorg District within Karnataka has its own subculture.

Political Factors

It was the political will of the government that led to liberalisation, privatisation and globalisation in 1991. The influx of foreign capital, setting up of manufacturing bases and joint ventures all sprung up from then onwards. Changes in the cash reserve ratio, taxation rates and duties are the political factors that have a major impact on business.

Legal Factors

The Supreme Court's directives have made car manufacturers adopt the emission standards to Euro II. Diesel buses are on their way out in Delhi for the same reason. Ignoring the law of the land can be detrimental to the interests of firms operating in the country.

Macroeconomic Factors

The interest rates, taxes and duties, the balance of payment situation of the countries that the firms want to do business with, fluctuations in foreign currency rates and the like are all macroeconomic factors that have a major impact on business and they must be well understood by business houses.

Technology Factors

In the past decade, information technology, telecommunication, biotechnology and genetic engineering have revolutionised the business scene in India and abroad.

Global Factors

With the breaking of the Berlin Wall, the reunification of Germany, the breaking up of the USSR, and more recently, the attacks on the World Trade Center in New York, the Indian Parliament, and the liberation of Afghanistan, have affected business worldwide and most countries are trying to recover the lost ground. On the brighter side, developments in the area of medicine, agriculture, farming and cloning have helped the world take big strides towards a better future for its children.

Companies face certain basic situations as they plan international marketing. Some situations arise from within the company while others from outside:

1. Company-specific problems:
   - Fear of the unknown.
   - Reluctance to go international because of a good domestic market.
   - Lack of resources; financial, manpower or information problems.
   - The company's inability to face international competition in the host countries.
2. Government barriers:
   - Host country regulations like stringent laws regarding international investments (this was the case in India prior to 1991) that discourage companies.
   - Tariff barriers.

Companies face competitive environment factors that can be seen with the help of Michael Porter's Five Force Model.

COMPETITIVE BUSINESS ENVIRONMENT

Let us discuss the competitive business environment with the help of Michael Porter's Five Force Model (see Figure 1.1).

Figure 1.1 Five Force Model

	Threat of new entrants	
Bargaining power of suppliers	Rivalry among existing players	Bargaining power of buyers
	Threat of substitute products	

Rivalry among existing players: The most important factor a company must deal with is the existing competition. Over the past decade, this has become a very important issue for Indian companies as competition has increased severalfold. Marketeers in India enjoyed a virtual oligopoly situation in most products till the epoch making year 1991, when the government opened up the country's economy to foreign players. The severity of competition is manifested in the innovations brought about in the marketing mix by most firms. Foreign players have brought with them the latest technology, well-known brands and management skills. However, they lack basic information about Indian buyers, their culture and mindsets. Indian firms can, therefore, make use of this intrinsic weakness in the foreign players and gain an advantage over them.

1. Bargaining power of suppliers:
   - When there are several suppliers of undifferentiated products and a few buyer firms (like suppliers of nuts and bolts), the buyers have the bargaining power and the large volume buyer gets a better price as quantity discount.
   - When the suppliers are limited and there are several buyers, the bargaining power shifts to the suppliers as then the suppliers can pick and choose their buyers on the basis of their purchase value, proximity and adherence to payment schedules.
   - When the suppliers are limited but make unique products for a particular firm (like car seat manufacturers), the buyers have the power to the extent that the supplier has to conform to the standards and delivery norms of the buyer firm. As there are no other buyers for the product, they can acquire bargaining power by cornering the firm into a tight supply position and the firm will accept any terms of business as long as it can keep its production going.
   - When the supplier is a part of the firm's own group, the bargaining power is decided by the head of the group, who then has to make a decision about profit distribution among the various members of the group.
2. Bargaining power of buyers:
   - The customer gets his power to bargain when there are several firms supplying the same product and the customer gets his choice of buying from any one of the sellers.
   - When the product demand is in the growth stage of the product life cycle and entry barriers like high investment costs or government restrictions are few, then newcomers find it difficult to start business in that area and in that product.
   - Threats to the product may come from substitute products. For example, paint manufacturers may face competition from manufacturers of *chuna*, wallpaper, cement and wood panelling.

In order to effectively counter the problems faced by firms on account of changes in business general environment factors and competitive environment factors, they must carry out market research/scan continuously in order to have accurate information about the international market at all times.

Most Indian companies that are doing well in the local market are concerned about the response they will have in the overseas markets. This fear can be removed by getting market surveys done to locate the market position including the competition, tariff and non-tariff barriers to their entry in the host-country market. Indian private companies plan international marketing purely for profit motives. However, it must be understood that companies must remain patient as profits in the international markets may come slowly because of the unknown and unexpected business environment that may be prevailing there. In international marketing, perseverance pays as fast growing companies disappear fast too.

INTERNATIONAL COMPETITION

Companies planning to go international must take international competition into account. With many countries joining the market economy, most countries face severe competition in their markets with several players in the field. While the WTO has been trying to arrange a level-playing field for the various companies, there are basic advantages that certain companies and certain countries enjoy. Companies with high international brand equity like Coke and Pepsi in soft drinks and Mercedes in cars are recognised as major brands the world over. Others, therefore, find it difficult to compete with these brands.

Applying seventeenth century law on competition by Adam Smith, it can be reiterated that companies and countries that have absolute advantage in terms of low-cost production will gain ground. However, in the twenty-first century, other factors like comparative advantage rather than absolute advantage take precedence. Comparative advantage comes from cost leadership gained through economies of scale, experience curve and better technology. Better maintenance of manufacturing equipment reduces time and adds to the lowering of cost. Market response and quick redressal of complaints create competitive advantage for companies.

'Vasudhaiv Kutumbhkam' (the world is one family) aptly describes the business world of the twenty-first century. With supersonic jets, travel time has been drastically reduced. The internet, fax and cell phones have made communication as fast as anybody can want. The flow of technology, finance and market information has become rapid, making it easier to plan global business. It, however, has opened the doors to a wide range of countries, creating severe international competition in practically all areas of business. There have been international or multinational firms in India for a long time now like the Lever Brothers, Shell, Exxon, Ford, Nestlé. Today, a much larger contingent of firms is either already in the market or is entering it to vie for the customers. There is hardly a nation left which is not a player in the international arena. It depends on the supply–demand paradigm, which decides the supply point, while the economic levels of the countries define the product demand support and the product sales in different countries.

International marketing helps companies in expanding their sales with benefits accruing in terms of foreign currency for themselves and for their country. Of late, several countries, including India, have liberalised their trade policies. Technological advances have helped in bringing about improvements in manufacturing processes that have helped products achieve international quality standards. The UN organisations like the World Bank, the International Monetary Fund (IMF) and the WTO assist companies in establishing international trade.

Companies need to assess their core competencies with respect to the requirements in the overseas markets and dovetail the same for obtaining the maximum advantage from them. The conditions in the host countries, and their economic, cultural and political ambience should be studied thoroughly for best results. Companies start with exporting their products, and as they succeed they get into strategic alliances with groups in the host countries to further expand their trade.

Multinational corporations take the global marketing scenario into account as due to their financial muscle, they can pick and choose the most appropriate country to do business with. However, all companies, both first-time exporters and even well-established MNCs have to learn about the following areas of the host country in order to ensure the success of their business:

1. Social environment
2. Political environment
3. The legal system and laws on business, trade and commerce
4. Economic situation
5. The consumer behaviour
6. Its geography
7. Its historical past

International marketing provides a company with an inbuilt force that propels it to achieve better technology, quality standards and finance that spin-off in the domestic markets as well giving the company an edge over competitors. The forces that impede the company's progress in the international markets are discussed next:

1. Unfavourable governmental attitudes and policies towards foreign companies.
2. Cross-national treaties, economic pacts and bilateral agreements on trade.
3. Strong acceptance in the host country of another country's products.

The following factors drive companies into expanding in international markets:

1. Excess production capacity beyond the home-country's demand.
2. Low production costs including the cost of labour.
3. Low cost of materials along with easy availability.
4. Proximity to international markets.
5. Government regulations encouraging international marketing, like incentives.

As is evident, the drivers are specific both to companies as well as to a country's business environment.

Companies planning international marketing need to assess the norms of consumer behaviour of the host country. Countries have different geographic positions in the world. Some are large countries with a variety of religions, cultural ethos and languages, like India. Companies need to understand the diversity as also the similarities that exist in a country's social milieu. Culture can be described as the behaviour of the people arising out of their learned attitudes, value base, beliefs and the country's traditions. The host country would have differences in these areas from the home country. A country's culture is based on its tradition, history and the unique character of its social ethos. There are groups in each culture that emanate from similarity in family status, gender groupings, age, religion, political preferences, professional bodies, racial groups, ethnic groups and a certain degree of economic resources, prestige, status and authority from position. These groups tend to orient the buyer's behaviour in any given society. Companies need to build their own parameters for the culture of each country where they operate or want to do business with. Therefore, operating with a geocentric approach rather than a polycentric or ethnocentric approach would be the best alternative. In other words, the best way is to locate the best of the centralised and decentralised system of working. Business practices adopted by successful companies worldwide would succeed only if they take into account the cultural factors of the home country along with those of the culture of host country. The required level of cultural understanding of the host country would depend on the penetration planned by the company in the host country. The company may have to plan new strategies to suit the host country and it would depend on the cost of the change and the benefits that might accrue as a result of the changes.

As the market economy spreads in different countries and a number of companies start international operations, some mingling of cultural streams is bound to happen. India has witnessed a cultural revolution on account of the invasion of foreign films, television channels and foreign companies that have brought in expatriates into the country.

ECONOMIC ENVIRONMENT OF HOST COUNTRIES

It is necessary to understand the economic environment of the countries you want to do business in. The main indicators of the economic environment of a country are its gross domestic product (GDP), per capita income, rate of inflation and productivity levels. There are low income, medium income and rich countries, and developing and developed countries. While population can be an indicator of product demand, it could be too simplistic as in developing countries the population could be large and yet demand for luxury products could be low.

Countries can be divided into three categories with respect to their economic systems:

1. Market economy: Here individual private companies control and allocate resources.
2. Totalitarian economy: Here the government controls the resources.
3. Mixed economy: In a mixed economy, there is both private and government ownership and control of the resources.

While most countries have opted for market economy, a few pockets with a communist control on the governments still have a totalitarian economy, for example, Cuba. India had a mixed economy till 1991 when it decided to join the market economy in phases, with the government starting the economic reforms called LPG, that is liberalisation, privatisation and globalisation of the economy. China has had a long period of communist regime but for the last 20 years or so it has changed into a market economy. Russia too has come out of the communist way of life.

In a market economy, the consumer is supreme as he dictates what products are needed and, therefore, he decides what is sold, the levels and quality of production. Governmental controls are minimal in such economies. Twenty per cent of the total countries having 15 per cent of the world's population, that accounts for nearly 80 per cent of the gross national product (GNP). These rich countries are more dependent on industry and services and less on their agriculture produce. The duality of their business behaviour can be seen from the following statements. These rich countries have to depend on the less rich or the developing countries for marketing their products. However, surprisingly, the rich countries place artificial barriers on the export of products by developing countries by way of quota systems. The WTO has been trying to provide an easy access to markets around the world for the developing countries but with little success.

Countries can be classified as developed or developing depending on their income levels. Some of the Asian countries like India and China are developing on a fast track. Product demand is dependent on the population of the countries and their per capita incomes. The other variables of product demand are:

1. Climatic conditions
2. Education levels
3. Religions practised
4. Cultural ethos
5. Political stability

The high-income developing countries are trying to privatise government-owned companies. At the same time, the poor countries need to export for repayment of their external debts, which leaves little foreign exchange earnings for their developmental work.

The former USSR has broken up and present-day Russia is trying to balance the conservative government controls with transition towards a market economy. China has been transformed into a dynamic market-controlled country. There has been a decentralisation of economic decisions and money has been coming in from the overseas Chinese.

The importance of international marketing has never been felt in India with such intensity as today. With increasing international competition on our shores, Indian firms have to compete with them and find other markets as well. With the partial convertibility of Rupee, export earnings have become a major source of foreign exchange, which helps firm's import raw materials and components. Now even completely built units are allowed to be imported and many firms are using these benefits to import samples for user trials and sales. Firms have to find markets overseas to survive in the Indian market. It is also true that first the product must be proven in the Indian market before firms venture out for its export, unless of course, the product has been manufactured with the foreign customers' specifications and requirements in mind.

Our manufacturers have been, by and large, handicapped in the world market, with a few exceptions, because of the following reasons:

1. Indian products have low brand equity. Foreigners consider them to be of low quality.
2. Our advertising in the world market is below the mark.
3. Our embassies need to do much more to promote Indian products.
4. India has been considered a country of snake charmers and elephant rides, a land of maharajas. This image needs to be changed.
5. Our knowledge about the world market is restricted to traditional products and traditional markets. We need to widen our product range as also our geographic world coverage.
6. Till the 1980s, firms in India found that the home market was more attractive and they had no reason to go overseas.
7. Surprisingly, perhaps, it was some small firms, which ventured into exports and built a name for themselves.
8. With Rupee value in favour of exports, now is the time to take full advantage of the situation.
9. India has low cost of labour, which can make our top quality products very competitive.
10. To a new exporter, international business remains a mystery until he ventures out and finds out the benefits and methods of going overseas.

BRAND INDIA

Brand India needs to be nurtured and developed in a major way and only that will ensure rapid development of international markets for Indian companies. A few years ago, the Government of India started activities on building Brand India, but somehow the initiative got lost due to change in the government at the Centre.

The easy and most suitable way of doing international business is to look at the international market as it is done for the local market. The following factors about the general business environment need to be considered for conducting business:

1. Demographics: This gives a population profile in terms of income, age, sex, languages spoken, religions followed, urban, semi-urban, rural population of the host country, and seasonal and permanent migration patterns. These factors help in understanding the product demand patterns.
2. Socio-cultural factors: These give information on areas like health awareness, educational standards, population of working women, family size and festive seasons. These are also very helpful in determining product demand patterns. For example, Deepavali and Eid in India are periods of massive purchases by households.

3. Political-legal factors: The political system of the country, the number of political parties, the form of the government (that is, whether it is a monarchy or democracy), legal restrictions and aids to business, especially foreign firms are all important political and legal factors.
4. Technology: The level of technology available in a firm's area of interest, the speed of technology upgradation and research and development (R&D) efforts going on in the country are important technological factors.
5. Macro-economic factors: These factors deal with tariffs, levies and taxes, balance of payment between the countries and interest rates for borrowing.
6. Global factors: These provide information about the business globalisation process going on in the host country.
7. Governmental view: How the country's government views foreign investments and entry of foreign goods into their country? Do they have a long-range perspective on foreign firms? How are expatriate business people treated in the country are important factors.

Companies should understand the competitive environment factors also in order to plan proactive activities to counter competition or put it in its place. Michael Porter's Five Force Model should be used to gain knowledge on competition in the country (see Figure 1.1).

A detailed discussion on the subject can be found in Chapter 14 ('Market Competitive Forces Worldwide').

Companies wanting to do overseas business should understand the competitor's 4Ps—product, price, placement and promotion. This is to ensure that apples are compared with apples only and not with oranges. The firm must know who the competitors are, which of their products are in competition with their own products and the benefits the competitors offer to the customers in their product offerings.

After doing the analyses, the firm should take a look at its own strengths and weaknesses vis-à-vis the competition and then take the following decisions:

1. To go overseas or not.
2. If yes, which market or markets to enter and the priority of the markets selected.
3. The methods of entering the market—through direct sales to customers, through channels, having own outlets, franchisee operations or even having own production overseas. Production could be from component stage, semi-knocked down product assemblies or import of completely built units.
4. Having own offices and sales channels under direct control.
5. Technology transfers to local business/industry.
6. Deciding on the marketing programme, including market share to be captured, marketing expense to be incurred.
7. Deciding on the marketing organisational set-up.

Managers must be aware of the complexities in international business. The following need to be considered:

1. Global perspectives: Is their product acceptable in the global market or does it need any modifications to ensure its acceptance?
2. Options available for differentiating the product.
3. Possible strategies for pricing and distribution.
4. International marketing and government relations.
5. Advantages accruing to the firm from international marketing.

International marketing helps tide over problems that may arise while doing business in one market only. It becomes an insurance against political risks as well. However, companies should well understand the cultural diversities of different countries. Cultural differences can be converted to a company's advantage by positioning products as attractive ethnic ones.

Three strategies possible in international marketing are given below:

1. Global
2. Multi-domestic
3. Hybrid

In the global strategy, the firm adapts its international market planning on the lines of its single global strategy. The Mercedes car remains the same all over the world. There is no change in its marketing plans as well. The Lever Brothers, however, have different products, brands and other marketing features specific to each country. This is called a multi-domestic strategy. A combination of the two is the hybrid strategy.

Firms that have a universally accepted product with a known brand, like Coke, Mercedes, Toyota, have a global marketing policy, as the product remains the same the world over. However, firms with products where the tastes of the consumers differ from country to country, use the multi-domestic policy. In this case, they change the product specifications, pricing policy and advertising according to local conditions and tastes. Fast moving consumer goods (FMCG) firms like Unilever, Proctor & Gamble follow this strategy.

The most popular strategy is the hybrid one, where firms use a global product, but change its advertising and promotion to suit the local conditions. Even Coke changes its advertising and promotion to suit the target country while keeping the product the same universally.

Levi's jeans is the standard uniform for workers in the US, while in France, Italy and India, it is a fashion statement. Mercedes cars are mostly used as taxis in Germany, while it is considered a status symbol in the rest of the world.

Bar codes have made a global presence, for example, the Levi's link system helps their retailers the world over to 'transfer, record sales and control inventories' with the use of these codes.

If value is added in upstream activities like commercial aircrafts, it is global strategy. If the value is added in downstream activities like housing or prepared food, it is multi-domestic strategy.

In most countries, foreign firms can get competitive advantage by having quality relations with the government.

The advantages of global or international marketing for India are as follows:

1. It can leverage our low labour cost as a cost leadership advantage vis-à-vis the competition.
2. It can get foreign exchange as per the partial convertibility of Rupee.

The disadvantages of international marketing are:

1. Currency changes (exchange rate fluctuations).
2. The host country's strategies vis-à-vis foreign firms.
3. Lack of international experience.

The home country can develop a competitive edge with process improvement plans and with the help of total customer management as discussed next.

CORE PROCESS REENGINEERING (CPR) AND TOTAL QUALITY MANAGEMENT (TQM)

A firm's process-executing capabilities are a fundamental source of enhancing its competitive advantage. They are akin to tending the trees, where deep digging is required for watering the roots. Hence, operational strategies must be treated as an integral and important part of strategic management. Firms can improve their process capabilities through core process reengineering CPR and TQM. Operations or production's role is in evolving capabilities through *people and processes as against through products and processes.*

TQM improves the processes from the lowest level upwards, while CPR brings about radical changes from top down. It starts with training of the workers, maybe one day in a week as it is time consuming; it should be considered an investment by the management in improving the processes. The Japanese have developed quality circles, which are groups of workers working as a team who meet periodically to discuss quality issues facing them to find solutions jointly. These meeting are structured as they have a formal agenda and minutes are kept for reference and review at a later date.

The following are the similarities between TQM and CPR:

1. Both improve processes for customer value.
2. Both improve quality, cost and speed of the processes.
3. Both are based on a systems view (a non-systems view would be improving individual process only).

   At the Nippon Electric Glass (NEG) plant in Japan, television picture tubes are produced from silica or sand. Silica is converted into glass, which is then given the shape of the tube via three parts, the face plate, the funnel and the neck. These are then processed through vacuum and the electronic gun is then fixed. The entire process is carried out in one factory.

   Individual workers having quality problems with a process are either re-trained to do a better job or if required, the process itself is changed or modified. In CPR, the entire system is altered.
4. Both cover inter and intra organisational boundaries as they involve suppliers and customers.
5. Both aim at the best in class benchmarking with the ideal process.

The following are the differences between CPR and TQM:

1. Approach: In CPR, the management has to imagine and reach through their vision while TQM improves what the firm already possesses.
2. Scope and Scoring: TQM improves in small stages (like single runs in cricketing parlance) while CPR improves the entire organisation radically.
3. Design: TQM modifies the existing design while CPR changes the design.
4. Movement of the changed process: In TQM the movement is from the lowest level to the highest while the movement in CPR is from top management down to the worker level.
5. Involvement level: In TQM, the entire organisation gets involved while in CPR, only the top management is involved as it deals with huge investments by the firm.

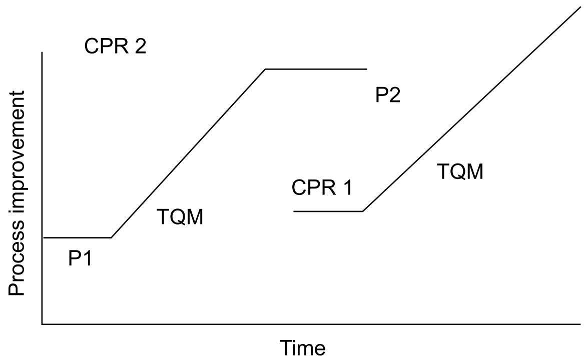
Both CPR and TQM are means of improving the customer value of the product and must, therefore, complement each other.

The following are the guidelines for CPR and TQM management:

1. Both must be tuned to the firm's broad strategies.
2. They must be adjusted to the core competencies of the firm.
3. The means of achieving the process improvement must not lose sight of the ultimate objective of the exercise.
4. For both, time and money are required; the requirement of money is much more for CPR.

Usually firms select a process, then to improve it they use TQM till there is no further room for improvement and the saturation point is reached. At this point, the firms select a new process through CPR and again the new process is improved through TQM. This is shown in Figure 1.2.

Figure 1.2 CPR and TQM: Process Improvement



The horizontal lines depict CPR while the slanted lines are showing improvements through TQM.

In formulating strategies, firms have to decide the improvement they are looking for, the competitive advantage they are seeking. This would help firms in taking a generic process and redesigning it through benchmarking it to match with its expectations on improvements.

Firms face one major difficulty in implementing CPR. At the time when the first process reaches its saturation point, if it is stopped before starting the second process, firms face loss of production and may lose the market. Hence, they try to introduce the second process while the first is still operating. When both processes are in operation together, production tends to drop due to Crazy Time, as shown in Figure 1.3.

As shown in Figure 1.3, the first process P1 is still operating when P2 is introduced. The time between the two process overlap, between the thick triple lines is crazy time as, unless the firm takes good care to minimise the confusion, it becomes really difficult for the firm.

Benchmarking helps the firm both in TQM and CPR, as while in TQM the results are benchmarked with the help of industrial engineering work-studies, for CPR the entire business and economic environments are seen for functional benchmarking.

The differences between TQM and CPR can be summarised as given in Table 1.1

Figure 1.3 Difference between CPR and TQM

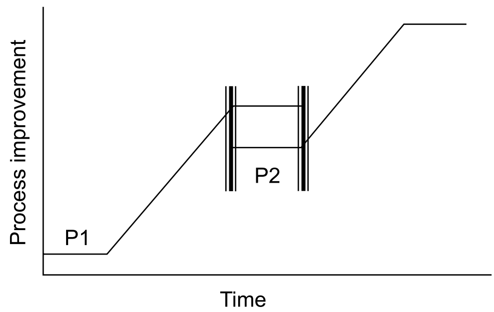


Table 1.1 Difference between TQM and CPR

	TQM	*CPR*
Change	Brings in changes in small measures	Drastically changes the entire organisational processes
Improvement	Improvement takes place within the process	The entire process is changed
Starting point	Bottom level	Top level
Involvement	Entire organisation	The top few
Continuity and customer	Continuous improvement until the next CPR, customers mostly internal	Re-design is non-continuous, customers mostly external

1. People's involvement in the process changes is absolutely imperative. The following is the plan for the people's involvement: The top management is required to set the improvement objectives, select the teams for improvement in execution, monitor results, solve problems in the way of the changes planned.
2. Middle managers coordinate between internal customers and plan makers, support change implementation, reorganise and plan redeployment of resources.
3. Evaluation managers must have benchmarks, critical paths and timetable to assess the progress as also benchmarks for quality of change.
4. It is important to have trainers to assist the teams and to guide them in the right direction for proper time management and quality of work.

TOTAL CUSTOMER MANAGEMENT (TCM)

Firms are geared up to provide customer satisfaction. However, if a firm can give the real value the customers are looking for or which would be of value to them even if they are currently not aware of the product, the firm can go far ahead of the competition. (While buying a motorcycle, a customer would value reliability, ease of driving and a hassle-free product more than anything else. However, trade-offs may be needed to provide low-cost benefit and some features may have to be removed or given as optional at a price.)

Customer surveys often give a glimpse of the real needs of customers, when unaided responses are called for, and those provide the information about what the customers would value most in the product. While the complexities of production are the manufacturers' problems, if these lead to ease of product usage by the customers these should be welcomed.

Customers' perceived value comes through the product, service, sales personnel, delivery in case of consumer goods while for industrial goods the value comes from the product in addition to maintenance, installation, commissioning, training of the customers' engineering staff, billing, credit period and the sales staff of the firm.

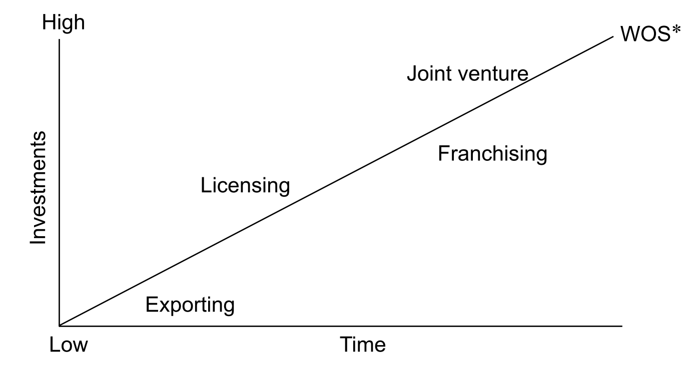
Firms should plan products for the entire life cycle of the product. The product should provide the customer with value rather than just customer satisfaction. There are new products, which the customer would want if they knew about the existence of the product. Cell phones are the best example. When they were not available and customers did not know about them, there was no demand. Once they came into existence, the demand shot up like magic.

Firms need to have a balanced view of manufacturing costs and the benefits of providing variety and complexity. Products that are difficult to use should either be withdrawn or should come with detailed instructions for customers about their use and benefits.

Firms should ensure supplies of raw materials and components through strategic alliances with major suppliers. They should keep a balance between standard mass production and customised production (Maruti cars are mass-produced and yet on customers' demand they can modify the cars like giving better seats, and openable and retractable roofs). Companies would benefit by having lean operation practices by avoiding or reducing non-value-adding work.

Firms take the following route to international business:

Figure 1.4 International Business Route



Note: * Wholly-owned subsidiary.

As can be seen in Figure 1.4, firms normally start by exporting. This is followed by licensing the manufacture of the product or its sale. Next comes franchise operation where the local businessman franchisee can use the brand name of the firm and get managerial support. On being successful, the firm can start a joint venture manufacturing unit and finally, the firm can have its own manufacturing organisation to manufacture and market products in the host as well as other countries. Firms can enter new international markets from any place depending on their own plans and the host government's rules and regulations.

Companies have to decide the markets they want to enter internationally. The three markets that cater to the major part of international business are the European, the US and the Far East. The decision to enter a particular market should be made on the basis of the host country's policy on foreign firms and its economic standards. Distances become important as freight of goods to be exported is dependent on it. India as a market has looked attractive to the western nations due to its large population, which consists of nearly 200 million people belonging to the consumer group.

Seeing the importance of inter-country trade, several geographic economic blocks or zones have been formed to not only do easy and free business with one another but also to put barriers for outsiders from doing business with them.

FREE TRADE ZONES

Some of the free trade zones are listed next:

1. European Union: The European Union (EU) has recently introduced a common currency, the Euro, with the help of which the countries of Europe can do business with each other without any tax levies or other type of barriers. Most of the European countries are members of the EU. Some like the United Kingdom (UK) have not fully accepted the idea yet and have kept their own currency, the Pound, as valid tender for business within and overseas. With nearly 400 million consumers in the EU, they amount to more than 20 per cent of world trade. The EU offers a large market to other countries, including India, due to its volume of requirements. However, its economic scales of manufacture create threats with power costs. India should take advantage of its low cost of labour and get into the EU market.
2. North Atlantic Free Trade Agreement (NAFTA): NAFTA is a free trade zone for the US, Canada and Mexico, with 365 million consumers. Trading with the US has its limitations due to their quota system in their import of textiles. Inter-country trade has no barriers, which creates barriers for outsiders.
3. Mercosur: This is a free trade zone joining Brazil, Columbia and Mexico. Venezuela, Columbia, and Mexico—the Group of Three—are forming a free trade zone and these could all join NAFTA.
4. Association for South East Asian Nations (ASEAN) and South Asian Association for Regional Cooperation (SAARC): These are other attempts at forming free trade zones and only time will tell if they are successful.

Market evaluation is done on the basis of proximity also. For example, the US sells the maximum part of its produce to Canada, its immediate neighbour.

International marketing starts as exports to other countries. In India, in the 1960s, firms found that their local market was not expanding to the expected level and that they had surplus products. It was enough to spur these firms to try and enter the export trade. However, once the Indian market came up, these firms diverted export goods in the then more lucrative local market. This inconsistency of supplies, which was sporadic at times, did no good to the firms or to the country's export effort.

Firms had to build export production capacities. Bajaj Motors did this and they reaped the harvest in terms of export earnings and long-range benefits. Some exporting organisations after their initial success, started exporting products of several manufacturers to different countries. The small-scale industry was the first to take up the challenge of exporting goods from India. Exports help in gaining economies of scale, improving quality to international levels and also help in Cross Parry.

Some companies, like Bajaj, took up direct exports and they could select from one of the following routes:

1. Exports through the local export department of the firm
2. Overseas branches
3. Export through travelling sales persons
4. Foreign distribution networks
5. Overseas liaison offices
6. Indian embassies
7. Foreign buyers coming to India
8. Agents of foreign buyers in India

The normal methods of entering the arena of international marketing are discussed next.

LICENSING

The next level of international marketing is through licensing. In this phase, the firm gets into overseas business by giving its technology, trade name, brand and process of manufacturing against a fee and/or royalty to a local firm of the country the firm wants to do business with. The firm gains entry in the foreign market without much investment. The firm taking the license gets the technology to manufacture a well-known brand in the world, a proven technology. India has had a number of such arrangements so far, including Maruti Suzuki, Alcatel-Modi. Some survived the open market economy of the country while others were bought out by the licensors.

The failure to survive can be attributed to the following:

1. Low control of the licensor over the local operations.
2. Sale of some vital components by the licensor to the firm at high prices to make extra profits thereby reducing margins for the firm.
3. Licensing done without looking at the synergy between the two firms.
4. Distrust between the two partners.

FRANCHISING

This is a more detailed and complete form of licensing. The franchiser provides all the product marketing concepts brand building plans and marketing processes. The firm pays the franchiser a fee and invests in the venture. The Mcdonald's franchise arrangement is one such example.

JOINT VENTURES

In joint ventures, two firms, one local and the other foreign join hands and they form a third company to exploit the strengths of the respective firms. This form of doing business became expedient for entering some countries as the governments of those countries were opposed to foreign equity beyond a certain level. Joint ventures can face problems because of the cultural differences between the two partners. Problems can also arise if there is a mismatch of the level of expertise required for absorbing the technology of the foreign firm, a difference of opinion regarding the running of the firm or financial disagreements.

FULLY-OWNED FOREIGN SUBSIDIARY

This is usually the last step and is taken after the firm has been in the foreign market for some time and has established itself there. It is dependent on the local government's policy with respect to investments by foreign firms in the country. Countries like India and China have been the focus of the western world as these countries are welcoming foreign direct investments (FDI).

OVERVIEW OF INTERNATIONAL MARKETING

Firms that do not take full advantage of global opportunities will in time lose their home base and might get taken over by strong foreign players. International marketing focuses a firm's resources and its objectives on international opportunities. Each firm has some driving and stimulating forces in this regard as also some restraining forces, like laidback ideas, rigidity of views, fear of the unknown. The fact, however, remains that the international market provides enormous potential for business. Overall, it is the place of perfect competition—there are lots of sellers and lots of buyers too. Products sold can be undifferentiated products like ores and raw materials (which are sold on the basis of price only). With differentiated or branded products, firms charge higher prices and they sell these products on the basis of their brand equity the world over.

Countries differ from each other in terms of their wealth, GNP, per capita income, education levels, religious beliefs, size and their ethnicity. Firms planning global marketing must understand the host country's human resources, economics, politics and social situations.

Major assumptions in international trade are discussed next:

1. Environment is a determinant in international marketing. Geography, distances and climatic conditions have an impact on business.
2. Scientific and industrial revolutions help the firms to make things happen even when the environmental factors are not conducive. Technology helps in doing more with less effort.
3. The ways in which firms do business and produce goods are different in different parts of the world.
4. The statement that, 'the firm's own country is the best for business' may not remain true with firms facing international competition from better products.

We can thus conclude that the trend in growth in world business is a result of the interaction of specific driving and restraining forces. The driving forces must overcome the restraining forces.

Let us discuss the driving force in world business. Mainly we can see the supply and demand situation and the gap therein. New products, newer needs of old products and worldwide communication links like television and the internet have fuelled the world of business as follows:

1. Worldwide TV networks and the internet have driven the markets. Product information, its usage and advantages are now known the world over through these media.
2. Technology helps in reducing human drudgery. Products like washing machines, vacuum cleaners and microwave ovens are ample proof in this regard.
3. The cost of the product is usually of vital interest to the customer. Low-cost manufacture with the help of economies of scale, experience curve or better technology all help a firm in becoming more competitive.
4. The quality of the products should meet or exceed the customer's requirements. With global sales, firms achieve economies of scale and with large volumes of production, costs come down while the quality remains the same. Small manufacturers have to compromise on quality to reduce the price or organise trade-offs.
5. Improvement in communication and transportation technology has broadened the marketplace as products get known, are demanded and can be transported speedily with modern fast aircrafts.
6. A firm/country's expertise gets it the right leverage in the international market as is the case for India in the field of software technology.

Coming to the restraining forces in the world market, they are:

1. Historical demand of the product in the local market.
2. Competition from the countries' own business enterprises.
3. Management myopia may be another restraining force. Firms may have short-sighted managers who consider that the profit from the country's market should be enough impetus and going global would be a waste of time and money.
4. A firm's organisational culture can at times restrict operations overseas. Many large Indian companies did not want to go overseas as a personal philosophy.
5. International barriers are also restraining forces. Some countries do not encourage outsiders to come to their country and do business there.

Today the international market has progressed because the driving forces are more dominant than the restraining forces. In spite of this, there are two different kinds of firms:

1. In the first kind of firm, the marketing manager decides on the firm on having a domestic focus, vision and orientation while he keeps looking for opportunities.
2. In the second kind of firm, the marketing manager ensures that the firm serves the international market and develops international strategies to compete with other international firms.

Let us discuss the economic, social and cultural environment of countries where firms want to do business and see how they have an impact on business.

The task of the international marketing manager is to recognise both the similarities and the differences that characterise the economic, social and cultural ethos of the countries of the world and incorporate them in the international marketing planning process.

A firm looking at international marketing opportunities must have a focus on its country's orientation. How is the country better than other countries? The firm may have an egocentric view—it might focus on areas where it is better than other firms in the world. It can also have a polycentric view of its country—it might focus on the areas where its country is better than other countries of the world. The best is, of course, to have a geocentric view, with a dual focus regarding the firm's and the country's superiority.

Expanding the theme further, we see the following paradigm:

1. Ethnocentric focus on the home country: similarities with foreign countries/dissimilarities with foreign countries to showcase the similarities and differences as a competitive advantage.
2. Polycentric focus: home country is unique, locates the differences with foreign countries and either modifies the product as per requirements or use the difference as a competitive advantage.
3. Region-centric focus:locates similarity in a world region and plans sales accordingly.
4. Geocentric focus: locates similarities and differences in home and host countries.

Let us analyse the strengths of some of the countries:

1. USA: It buys superior products that might have high prices and involve top quality technology.
2. Latin America: Countries of this region buy only from the people with whom they have strong relationships and a good rapport. Quality is usually a secondary consideration. Contacts are built by the behaviour of the firm's people, gestures, words and postures.

In some countries, price and benefits of the product assume great importance. In fact, a firm needs to know who the customers are in a country, what they want and what is important to them.

The economic environment of a country is a major determinant of market potential and opportunity. It is possible to identify distinct stages and formulate estimates about the type of demand that will be found in a country or market at a particular stage of economic development.

Differences arise when you compare the under-developed, the developing and the developed countries. There are also differences between an agrarian society and a highly developed one. In each case, the GDP and per capita income differ a great deal as discussed next:

1. High-income countries with per capita income greater than US$ 12,000: There are 27 such countries with a combined population of 818 million.
2. Upper middle-income countries with per capita income between US$ 2,000 and US$ 12,000: There are 35 such countries with a combined population of 912 million.
3. Lower middle-income countries with per capita income between US$ 400 and US$ 2,000: There are 65 such countries with a combined population of 1.775 billion.
4. Lower-income countries with per capita income less than US$ 400. There are 42 such countries with a combined population of 1.725 billion.

These figures are given only as guidelines and should not be taken as sacrosanct.

In the eighteenth century, most countries of the world had an agrarian economy. It was the Industrial Revolution of the eighteenth century in Europe that gave the world an industrial economy, with assembly line mass production techniques and material wealth. Rich countries today have high productivity per worker, in as much that their labour costs are high too. Poor countries have low labour costs and lower productivity per worker. The following factors need to be addressed in selecting markets:

1. Population and income
2. Number of households
3. Climatic conditions
4. Price negotiating culture
5. Languages spoken

India with its large population has a good market potential. The US is a bigger market than Brazil. China has come up as a big market with its vast population. Russia as an emerging market provides an opportunity to sell high-tech products.

Cold countries have a huge requirement of heating equipments while warm countries need air conditioners and coolers.

Price has been an important factor in purchase decisions. The methods of negotiating the price differ across countries. Small to large gifts (read bribes) is the norm in some countries. Inviting a potential customer to cocktail parties is prevalent in some countries. However, firms must know if it is good manners to invite ladies to such parties or not. In most countries, it is advisable to hire a local guide who knows the customs of the country and can translate the language with all its nuances so that no slip-up takes place. Forcing your own will does not necessarily mean success in business.

The task of the international marketing manager is to identify similarities and differences that characterise individuals and cultures of the countries of the world, so that strategies, products and marketing plans are efficiently adapted to global markets.

The expansion plans of firms should start by comparing, contrasting and analysing the economic environment of different countries. Marketeers should recognise that the economic environment is, but one of the several influential factors for analysing the global market. The socio-cultural environment needs to be considered as well.

PRODUCT

Companies should plan strategies for new product development as well as for differentiating products for international markets. Product policy should take into account the entire life cycle of the product. Fashion products and certain high-tech electronic products have a very short life cycle. In the international market, companies need to identify the target market segment (using market research). Based on the target segment, the product can be positioned from where the customer can adopt it and then the company can standardise on the product for the segment till they are ready with the next level of the differentiated product.

The first method used in the international market is to sell the same product as is sold in the local market. Managers have to find customers for the product. Mercedes is one example where the product sold the world over is the same. However, depending on the country, these cars might have left-hand drive or right-hand drive.

Most products in Japan have to take in to account the fact that the Japanese are on average shorter than other people. The following matrix shows how it works:

Table 1.2 Product Acceptance Plan

Promotion	Do not change product	Adapt product	Develop new product
Do not change promotion	Same product as local market product	Product adaptation	New product invention
Change promotion	Modify communication/ advertisements	Dual adaptation	New product invention

Super markets have been opened in India with some variations. Going to even less developed countries like some of the African countries, some more innovation may be required. In some countries, nudity could be permitted in advertising but in most it will not be allowed. Some countries prefer some specific colours. For example, Muslim countries prefer the colour green and firms need to keep this in mind. Advertising needs to keep in mind the local colour preferences, provide the advertisement a local touch, use local models and make use of appropriate local festivals to push the products.

It cannot be assumed that a product that has done well in the home market will also do well in the international market. According to Maslow's hierarchy of needs, products are meant to satisfy human needs like those of safety, social acceptance, esteem and self-actualisation and psychological needs. A car is not just a car. Besides being a means of transportation, it is also a reflection of a person's lifestyle.

Local products are meant just for one country. There may be a big demand for them in the home country. The American telecom giant, AT&T, confined its business to the US market till the last quarter of the twentieth century, as the market was large enough for its products. Sometimes product specifications differ. For example, the voltage requirements for electrical goods may differ across countries. The following are the reasons for going overseas:

1. Firms can utilise their local expertise in the global context and thus improve on it.
2. Firms can use their experience of one market to further their efforts in other markets.
3. They can make better use of managerial expertise.

Customers all over the world love popular international brands. Brands do the following for products:

1. Brands build trust among the customers who accept the product as reliable that would give them the known benefits.
2. Brands focus the buyers mind on the desired satisfaction from the product.
3. Brands provide the seller's promise and guarantee associated with the product.
4. Brands start occupying the hearts and minds of their satisfied customers. Harley Davidson, the famous bike company would be an example.
5. Brands form economic assets for the company and provide it goodwill.
6. Brands build buyer–seller relationships. As customers get the desired levels of satisfaction, they become the brands personal advertisers. Sellers can use these satisfied buyers for

getting information on new product demands, product variants and the needed product differentiations.
7. Brands promote customer relationships with the sellers as together they can create stories of the brand's success for convincing other customers, either by word-of-mouth publicity or through advertising.

A brand is not just a product on a shelf but is distinguished from similar products or services. Coca-Cola, Pepsi, Ivory soap are all world known brands. Thus:

Brand = Product + Packaging + Added values

The added values may be:

1. Quality
2. Image
3. Price
4. Function

International products have the potential of being sold in a number of markets. Industrial products are less dependent on the environment and can be exported with greater ease than consumer products. For consumer products, product modifications may be needed and these modifications need to be cost effective. For example, large milk bottles were not successful in Japan where in small homes people have small refrigerators, which could not accommodate the large bottles.

Global products are made with the global market in mind. The Mercedes car is the same everywhere. Sony's Walkman is another example. The high cost of product development needs to be amortised by a large volume that the global market can provide.

Global brands stick with a common market positioning. Mercedes is in the top bracket of cars everywhere. Heineken beer is positioned worldwide as a premium beverage. While global products are marketed the same way around the world, some of the 4Ps like promotion or placement may need changes. Advertising campaigns must be translated in the local language and at times, this is difficult as the subtle nuances of any language are not easily translatable. The global product/brand must be guided by the same strategic plans and principles. Coke and Pepsi are two examples of global brands. Even then, their tastes differ across regions. For example, sweeter colas are preferred in the east while this is not so in the west.

The following are the pricing considerations for export markets:

1. Price–quality parity.
2. Price competitiveness.
3. Penetrating or skimming pricing or any other consideration.
4. Trade discounts, cash discounts and volume discounts that need to be offered in any overseas market.
5. Whether segment price differential is required or not.
6. Price elasticity of demand in the overseas market.
7. Overseas governments' pricing regulations if any.
8. Any anti-dumping laws.
9. International transportation costs.

10. International currency fluctuations.
11. Government tax laws.

International pricing strategy takes costs and competitive pricing into account. In case the demand of the product is not price elastic, it may be worthwhile to keep high prices. The total of fixed and variable costs tend to go up with the addition of the product adoption costs. Marketing costs could well be much higher as compared to domestic marketing costs. It is best to select a price with highest margins after taking the expenses on channel members and marketing into account.

Introductory pricing is done on cost-plus basis or by taking only variable cost into consideration with only an element of fixed cost. However, if the market is in the growth stage of the product life cycle (PLC), a higher price can be fixed.

PRICE

Companies have to understand the price and other factors that determine the sales of a product. Export pricing needs careful study of the international market, the selected segment for the product, transportation costs and tariffs of the host country.

Firms have to be careful in pricing the product in different countries. Import levies, currency rate fluctuations, grey markets and price escalations are areas that need careful consideration by the firm. Some of the methods used for fixing the price are:

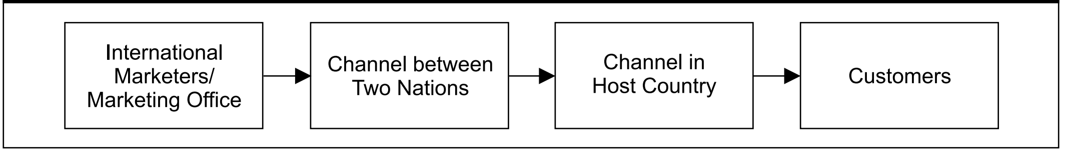
1. Same price across the world: This is not really practical if the firm is marketing in both rich and poor countries.
2. Prevailing market price: A firm can adopt the price at which the local vendors are selling the product.
3. Modified prevailing price: If the export firm can charge a higher price due to its better brand equity, it should sell at a higher price as price gets equated with the product quality. Hence, if a firm charges a low price or the same price as the local vendors although its product is superior, the customers will put it in the same league as the local product.
4. Cost plus pricing: This method is adopted when the product is far superior and there is no competition worth the name. As there is no basis of competitive pricing, the firm can charge a higher price on the basis of its cost to make and sell by adding extra amount by way of price of quality and brand equity.

In case a country is going through an inflationary phase, price increases can be resorted to at regular intervals.

DISTRIBUTION CHANNELS

When the product is manufactured in one country and sold in another country, the firm selling it has to consider internationalisation of distribution channels. The firm may have its marketing centre for both local and export sales in its own country. Later, it may start its export marketing office either in the country to which the goods are being exported or in some third centrally located country. The distance and freight need to be taken into account. The marketing set-up would take shape as discussed in Figure 1.5.

Figure 1.5 International Marketing Channel



For finding the best channel within the host country it is best to have a market survey done because it could be quite different for different products. Exceptions can be made if the firm has a world monopoly of the product. In the 1970s, one firm in the area of electronic components had a complete monopoly and customers came to India to buy the product, at the firm's dictated prices, which were higher than the domestic market prices, and distributed these products in their own countries.

Normally, the first step taken by firms is starting exports to designated countries. For this purpose they need to have an export sales department with one export/international marketing manager. As the business increases, the firm starts offices in host countries as well. Experts who arrange for market surveys, appointment of distribution channel members, market information systems, man these offices.

ADVERTISING AND PROMOTION

For international marketing, companies have to decide to have one of the following plans for advertising and promotion:

1. Global strategy: Here the same advertising and promotion works for the entire world market. The Pepsi circle of blue and red is recognised all over the world.
2. Multi-domestic strategy: Here the firm allows each country's local management to plan their own advertising and promotion best suited to local conditions. This is the strategy followed by Lever Brothers.
3. Hybrid strategy: Here the firm has a global perspective and yet alters the advertising and promotion to a limited degree. Most firms change the models in their advertisements. For example, the Japanese would appreciate advertisements with Japanese models.

MARKET GLOBALISATION

The process of market globalisation has speeded up in this century. The most globalised nation is Ireland. After it, comes Singapore, Switzerland, Holland and Finland. India has been ranked at 61 in the list of globalised countries. The countries have been assessed on their international trade, FDIs and the income accruing thereof. Besides, the infrastructure facilities form the assessment base and include telephones, travel and movement of personnel. Technological standards and political stability are the other factors taken into consideration.

India ranks highest in its interweaving with the international organisations of the UN at the 28th position. It ranks 30th for remittances and personal transfers. In other areas like economy, personnel, technology, political factors, trade, travel, internet, host treaties and investment income, it ranks between 50 and 60. These numbers only prove the point that as a developing nation India has a long way to go in terms of globalisation. Table 1.3 gives India's ranking in various areas.

Table 1.3 India's Ranking in the World

Factor	*Rank*
Technology	55
Political	57
Trade	59
Economic	61
Personnel	53
Telephone	58
Portfolio	56
Travel	61
Internet hosts	57
UN Peacekeeping	58
Treaties	53
Secure internet	53
Remittances	30
Government transfers	51
Investment income	60
Internet users	55
Foreign direct investment (FDI)	55
International Organisations	28

There has been production globalisation that takes into account the principles of opting for the lowest cost manufacturing country keeping the quality standards at par with the home country standards. Similarly, markets have become globalised with the advent of increased travel by people around the world. This has led to product knowledge and availability to travellers.

Firms usually start marketing their products in their own country, that is, they first sell their product in the domestic market. Once established as a known brand and accepted supplier of goods, they need to diversify their markets and the first step in that direction is exports to another country. Excess production, which cannot find market in the country of origin, is the starting point of exports. Later on, firms do take up special production of goods for exports. Some others build an export bank (inventory) to avoid any clash with the demands of the domestic market. Firms have to realise that the product, which is considered as giving value for money and fulfilling the customer's needs must do the same in the overseas market.

Once the firm wants to get established in the export market, it has to understand the business environment of the foreign country. The four Ps of the host country—product, price, placement and promotion may not have the same relevance elsewhere.

In prehistoric times, the city-states traded through the barter system. One state had one product while the other had some other product and they both needed the products that the other had. The same type of advantage in tradable products between countries works even today, except that the scene is much more complex with several countries in competition and myriads of products having global access.

In India, exports are a firm's imperatives due to following reasons:

1. The partial convertibility of Rupee, which gives the foreign exchange needed to exporters for their imports for production.
2. Need to achieve economies of scale of production for lowering costs and making prices competitive for exports too.
3. With MNCs getting a foothold in India, firms need to have greater markets, which India cannot provide.
4. The intangible benefits are the improvement of product quality, improvements in communication systems.
5. Upgradation of technology.
6. Cost reduction due to large-scale manufacture.
7. Utilisation of human resources like in the IT sector, where India has a large workforce.
8. Internationalisation of Indian brands.

Let us discuss the negative factors of going for exports:

1. Low image of the country as a supplier of quality goods. This is gradually changing.
2. Firm's culture, which does not give the required fillip to exports.
3. Lack of experience in international business and the fear of the unknown.
4. Cultural differences between nations.
5. Entry barriers in some countries, governmental controls and in some cases, like the US, the existence of quota systems for exports.

There are some common factors as discussed next:

1. Balance of payment between trading nations.
2. Stability of their currency.
3. Transportation costs.
4. Infrastructure status.
5. Quality control plans in each country and how these manifest in international trade.
6. Trading blocks like the EU, NAFTA and ASEAN.
7. The WTO, which regulates international trade and settles trade disputes between nations.
8. Political instability in some regions.
9. Economic upheavals of the Far East, Japan.

CULTURAL ASPECTS OF GLOBAL BUSINESS

It is widely believed that culture is not inherent but is learnt. Different areas of culture are interrelated; a particular area's population shares a common culture and it differentiates the area from other areas.

Culture guides people to respond to situations and since it has been learnt, it is difficult to change. Marketeers need to find some common reference point between cultures of different countries, because it is the culture of a country that defines behaviour norms and reactions of its people

Some countries have the government red tape as their work ethos or work culture. Companies need to understand the ways of circumventing issues that can get delayed due to red tape. In some countries, the people in power do not work without some sort of payback, like bribes in the form of cash or gifts.

For example, in France there is elaborate coordination between business and industry and the country's government. The government makes sure that the most effective use is made of the country's resources—human, financial, technological and information. The government wants to ensure that there is no resource deployment in uneconomic areas. The companies revise their plans every five years to focus on economic growth, price stability and repatriation of foreign payments. They want to keep the employment situation favourable. France has planned global strategies for specific areas like electronics, microelectronics, consumer and automation industries.

The country tries to have perfect coordination between the government, industry and the universities. The major drawback in France for outsiders is their lack of quantifiable and rational data. France fully supports the European community. The planning process is organised along governmental guidelines.

Germany, on the other hand, believes in having its labour force under the management of companies. The boss-ordering-about syndrome still exists there as the boss has all the authority. To outsiders, the labour management partnership therefore, may appear more to be a corporate gimmick aimed at keeping the unions satisfied. Germany has a benevolent and yet authoritarian leadership. There are worker directors in most companies who participate in major staffing decisions. The laws require companies to have workers on their board of directors.

While Japan has forged ahead to become a major economic force, Korea is trying desperately to catch up with Japanese business. Japan believes in lifetime employment for its workers. The decision-making process seems a bit complicated to outsiders as they take collective decisions. With the free flow of information, collective decision-making appears to be a sound policy, while the responsibility of the decision outcomes rests with one person only.

The Japanese believe that good education is essential for success. They have a consultative form of decision-making with upward flow of decisions. Authority usually comes with seniority and there is respect for age. Loyalty to the company a person joins is lifelong; however, this characteristic is getting eroded in the present times. In the US, business decision orientation is on a short-term basis. Decisions are taken on an individual basis. Brainstorming sessions help the decision-makers in getting views contrary to their own, as there are people who play the devil's advocate in each meeting. The decision-making process is top driven and as it is individualistic, it is quite fast. However, the implementation of decisions can be slow.

Australia is politically stable, its business runs on social value systems. Australian entrepreneurs are ready to take risks for developing their businesses.

China believes in having both five-year and one-year plans that are formulated by the top committee members. The flow of critical decisions is from top to bottom. The decision-making process is slow and so is the implementation process.

Companies use some of the following techniques to gauge whether their company will be successful in a particular country or not:

1. Discounted cash flow
2. Payback period

3. Net present value
4. Return on sales
5. Return on assets
6. Internal rate of return
7. Return on equity

There are certain basic risks connected to international marketing as discussed next:

1. Risk of unknown competition.
2. Risk of change of currency rates.
3. Political risks of having new governments with different agendas for foreign companies.

The home country objectives of business are dependent on its cultural ethos and transposing them on to another country would need defining the cultural ethos of that country. If the marketeers try to impose their country's culture on the other country, it may complicate the issue and hence it is imperative to leave out one's own country's cultural biases while formulating the objectives of business for other countries. There may be, however, products that have universal appeal and they would not need any such action.

PRODUCT INNOVATION

While a product may be introduced as an innovative one in one country, it may already be in a stage of maturity in some other country. Product acceptance in new countries takes the following steps:

1. Product knowledge or awareness, which comes from advertising.
2. Interest in the product makes prospective customers obtain more information about the product.
3. Judgement about the value of the product is made at this stage.
4. The next step is the trial stage when the customer tries out the product before adopting it.

The rate of adoption of a product depends on the following considerations:

1. Competitive advantage of the product and also the competitive advantage of its country of origin like low-cost labour, balance of payment situation and currency rates.
2. Acceptance of change. Some countries like the US need to change their products all the time, while countries like Japan and India prefer to stay with the old products unless something of great interest comes along.
3. Ease of usage of the product and its compatibility with other products in use.
4. Ease of trial helps in ensuring product usage.
5. Availability of information when needed is vital for the customer trying to make a change.

Major cultural differences can be seen in US and Japan. While the US has an individualistic management style, the Japanese style of management is based on group decisions.

Table 1.4 shows the differences between the two cultures:

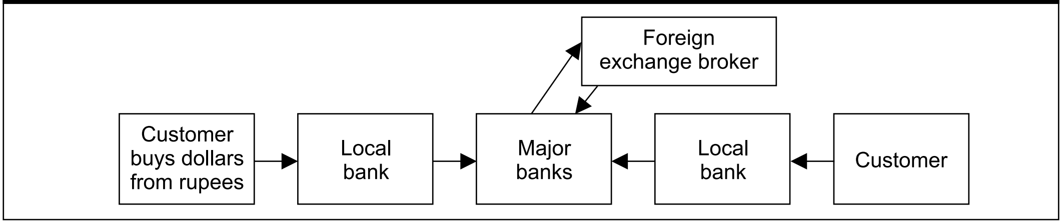
Table 1.4 Cultural Diversity between Japan and the US

Japan	*USA*
Formal indirect business	Direct informal business
Prolonged bargaining	Hard bargaining
More stability in jobs	Top management shifts
Bargaining is a long drawn out process	Persistent bargaining

International marketeers must take cultural factors into account to succeed in their business.

Foreign exchange is the currency sold or bought in the foreign exchange market. The transaction takes place as shown in Figure 1.6.

Figure 1.6 Foreign Currency Dealings

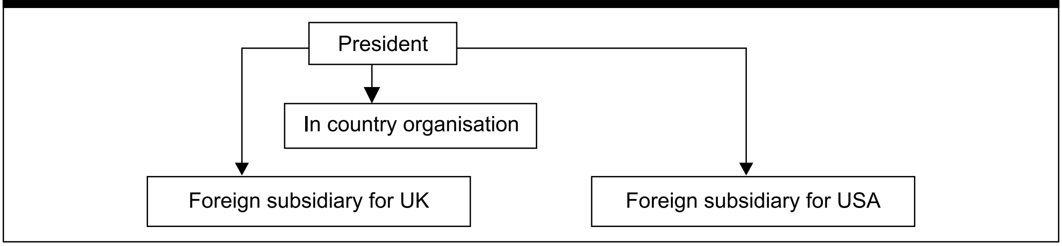


The major task of local banks in international business is handling money. The most common form of money transaction is the letter of credit (LC). These can be of the following types:

1. Revocable LC with recourse
2. Revocable LC without recourse
3. Irrevocable LC with recourse
4. Irrevocable LC without recourse
5. Part shipment allowed or not

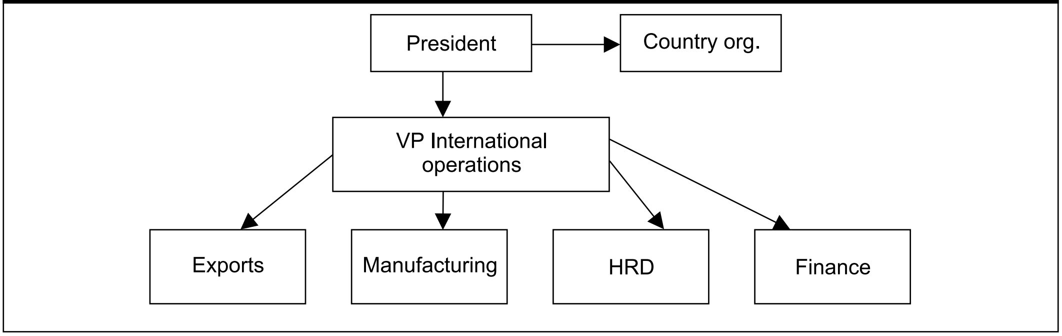
ORGANISATION FOR EXPORTS

Figure 1.7 (a) Organisation for Exports



Another alternative:

Figure 1.7 (b) Alternative Organisation for Exports



GLOBAL COMMUNICATIONS

Advertising in the international market must take the country's cultural ethos into account. For example, in Islamic countries, green is the preferred colour. In China, yellow is the sacred colour and should be used only for holy products. White is the colour of purity in the west while in south Asia it is the colour of mourning.

In UK, all advertising is allowed unless not forbidden; in Germany, all advertising is forbidden unless allowed. In Italy, everything is allowed even if it is forbidden and in Belgium, no one knows what is not allowed.

Advertising takes three forms in the international market as discussed next:

1. Global
2. Multi-domestic
3. Hybrid

In global advertising, one campaign is planned and used globally whereever the firm is selling the product. The Mercedes car is a typical example as the same car sells without any modification and the same advertising goes with it. In contrast, in multi-domestic selling, each country plans its own campaign according to its culture. Lever Brothers give total freedom to the local management regarding the campaign.

In the hybrid plan, while the global idea remains the same each country can change it to suit its market. Models can be of local ethnicity and metaphors used are those that are understood by the local population.

The percentage of GNP spent by countries on advertising are given in Table 1.5.

Russia has become a nation of the rich and the poor. The rich Russians are looking for new products. They see a lot of TV and are happy even with second-hand goods. The best way to advertise in Russia is as follows:

1. Provide exact information.

Table 1.5 Percentage of GNP Spent by Nations on Advertising

USA	2.02
Sweden	1.88
The Netherlands	1.77
UK	1.74
Switzerland	1.59
Australia	1.37
India	0.3
Nepal	Trace

2. Give usage details.
3. Introduce new kinds of products.
4. Concept selling.
5. Introduce lifestyle products.

In China, outdoor advertising is used. For product demonstrations, the Chinese like to see TV advertisements. Testimonials by experts are favoured too.

While selecting an advertising agency, the following issues need to be considered:

1. Is it an Indian agency with foreign collaboration or a foreign agency with offices in India?
2. Some countries adopt a nationalistic approach as is the case in Canada and here it is a good idea to appoint a local agency. Local agencies provide the subtle nuances of the local culture and language as also the goodwill of the target market.

MARKETING CHANNELS

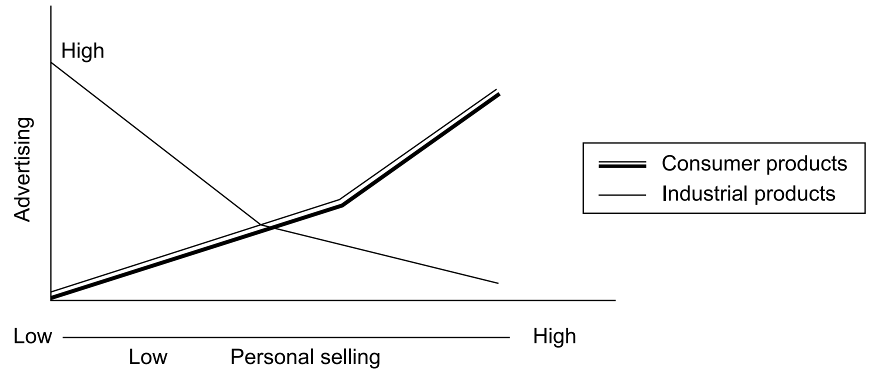
In order to decide the most effective channel, the firm must consider the market segment it wants to cater to and the product positioning in the market. Channel selection should reflect the firm's strengths and competitive advantages. In the beginning, it is correct to use similar channels as already in use by the competition. Distributors should be selected on the basis of their experience with similar products, commitment to the firm's objectives and financial and human resources for the task. Trainability of their staff in selling the product is useful. If they can provide after-sales service it is an added advantage. The distributors normally appoint retailers, but initially it is a good idea to approve their appointment to ensure a long-term profitable association with them. For industrial products, firm should look for technically-oriented distributors. They will then be able to supplement the firm's salespersons' efforts in a positive way.

Figure 1.8 shows the relative importance of advertising and personal selling, either by a firm's salesperson or by its distributors.

In most developing countries, the age-old distribution systems are valid as discussed here:

1. Sole distributors
2. Area distributors
3. Dealers

Figure 1.8 Relative Importance of Advertising and Personal Selling



4. Agents
5. Stockists
6. C&F agents
7. Retailers
8. The firm's own shops
9. Franchise outlets
10. Super stores

In developed countries, distribution through new channels like the internet, teleshopping, personal door-to-door selling are gaining popularity.

INTERNATIONAL MARKETING—WTO

In order to ensure free trade between member nations, the UN members formed a body that is supposed to monitor, regulate and assist in trade between nations. The first such body was the General Agreement on Tariffs and Trade (GATT). It was basically meant for trade in merchandised goods. Eventually, it evolved into an improved world body—the WTO. The WTO covers goods, services like international telephones, creative works and intellectual property rights. It is a formal structured organisation with its rules binding on all its members. It is also a body for settling trade disputes between nations. It has an arbitration mechanism and an appellate body where nations aggrieved from the decisions of arbitration can appeal against the same.

While the GATT had 128 members, the WTO has nearly 140 members with more wanting to join. The WTO has its headquarters in Geneva, Switzerland. It performs the following tasks:

1. Administer and police the existing and new free trade zones in the world.
2. Oversee world trade practices.
3. Settle trade disputes.

It was in 1995 that the WTO came into existence. There were seven years of long fruitless negotiations, known as the Uruguay Round of trade talks when the new apex body, the WTO, was formed. It came into existence on 1 January 1995. It has the authority to make rules and regulations governing international trade and to enforce the same among the member nations. There are several problems that this body has faced:

1. Farmers in the EU received huge subsidies that gave them an extra edge over others in agriculture products in international trade.
2. The Multi-fibre Agreement for trade in textiles was another example of managed trade.
3. The removal of these and similar biases are planned by the WTO. It may, however, take some time before quota in the textile trade is fully removed making it part of free trade.

For the developing nations, however, the WTO has some negative aspects as trade, finance and development go hand in hand and the developing nations need extra support for their growth. In fact, it can be seen that the developing nations are also large markets for the developed nations and therefore their development is in the interest of the developed nations too. It is imperative that a level-playing field is created between the two, the developing and the developed nations, with special emphasis for the weaker nations.

AREAS THE WTO NEEDS TO LOOK INTO

Managed Trade

While free trade remains the objective, yet most nations have non-tariff bases trade barriers. These include critical and almost impossible product specifications, testing methods and source verification of components and raw materials. Outsourcing from international manufacturers the essence of international trade is getting warped.

Free Trade

While trade may be free, does it also give a fair share of trade profits to the trading partners? Profits, employment, foreign exchange earnings, technology upgrades, production capacities, infrastructure development and building of institutions keeps the parity between rich and developing nations a dream only.

Market Entry

Even within the WTO regime, powerful nations have the facility to safeguard their interests while the weaker nations have no option but to follow the WTO rules. The best way for these nations is to accept the existence of the WTO and then work to get the best possible advantage of its rules. Each market has some internal forces like the political set-up, level of liberalisation of economy and its infrastructure. Developed nations have built such difficult paths for the entry of products from developing nations, product specifications being one of them.

Hence, countries like India need to take following steps to make themselves ready for the global market:

1. Have clear goals and strategies.
2. Strong points as strategic options and correct assessment of bargaining power during negotiating rounds of the WTO meetings.
3. Dynamic coordination between nations with similar ideas/problems.

Work on these has been going on and it needs to be intensified with a sense of urgency. The WTO, it must be understood is here to stay and it would be prudent to get the best out of it. It is for every ones benefit in international trade. Nations should help improve competitiveness of their trade by helping domestic firms in getting better technology, better infrastructure support and management. There could be assistance to domestic trade to enable it to compete with world players on a level playing field.

India as a member of the WTO has to accept and honour its rules. India should therefore have an integrated plan for complying with WTO rules. It could be done in the following way:

1. Help firms get better technology, management and organise state of the art infrastructure support to make them competitive in the country and globally. Technology should meet with the best in the range available anywhere in the world.
2. Remove internal hurdles for firms to prepare them for international competition.
3. Phase introduction of globalisation and liberalisation to give breathing time to firms to adjust to international competition.
4. Help in strengthening the anti-dumping institution and competition by identifying the areas of dumping and the damage it is causing to the affected countries. Then, the reasons for dumping including industry capacity and financial muscle should be understood.
5. The WTO accepts the link between law and economics. Legal battles fought in foreign countries are expensive. Experts and consultants in the area of the WTO should be brought in and they should be able to coordinate with their international counterparts.

The International Marketing Game 1.1

Starting the Game

Students on their own or with the help of the faculty form teams for playing the game for which instructions are given at the end of each chapter. The tasks may not directly relate to the preceding chapter but they are connected with the subject being learnt.

(*continued*)

The students are expected to create an ideal structure using group dynamics, for which time will be allowed to conduct research that is practical. They will need to express their understanding of the international marketing environment and related business issues. Students will need to pick topics quickly and work in groups of 4–6 students each. Some time should be spent on library research and some in primary research. Students will need to organise and manage their time efficiently. Part of being a manager is to have self-management and time-management skills. Students will need to keep a good routine and not waste time.

Students will have the freedom to organise amongst themselves. One person will be assigned the group leader and will be responsible to see that everyone reports to him/her. The group will need to meet and divide tasks amongst the team members. They will need to make sure that there is enough time for writing and editing the report. This usually takes more time than expected. The project should be relevant to today's international marketing scenario. Some suggestions are:

1. Pick up an FMCG product and a country of the Middle East. Plan a proper marketing research to evaluate its market demand and to assess the buyer's behaviour in the country.
2. Select a consumer durable and locate a market near India and plan a research methodology to obtain the demand in that country.

Company Studies

These topics involve field interviews and correspondence combined with documentary sources. Students have to make full use of the libraries of the institute as well as others like the US Library or the British Council library.

1. A global marketing audit: Design a marketing audit that a company can use to determine where it is in the Keegan typology of stages of development of a global corporation and what it should do with the information. Chapter 21 ('International Marketing Audit') deals with the subject in detail and students should read it before starting the audit.
2. Reports analysing the global marketing strategies of companies.
3. Global product management: Under what circumstances have companies integrated their domestic and foreign product planning and management? What factors have led to this integration? What are the explicit and hidden costs and benefits?
4. Global marketing transfers: How do companies manage the transfer of marketing experience internationally?
5. International marketing data analysis: Analysis of published data with implications for management.
6. Global market performance analysis: Economic and social data combined with a company's sales, earnings and expenditure data and judgemental measures of competition could be used to measure and evaluate market performance in different countries.

Topic Reports

1. Marketing in countries like Japan, India, the US, Europe, and China by using secondary sources and personal interviews. If you make this type of report, make sure that your report has practical recommendations for marketing managers.

(*continued*)

2. Export pricing policies. Examine the export pricing method used by a company or group of companies and make recommendations for improvements. Explain why you recommended these changes.
3. Pricing strategy in an MNCs for inflationary markets.
4. How can Indian programmers solve software problems in the US while the Americans are sleeping (the question of time lag). A proposal to an American software company (for example, Microsoft) to engage software professionals in Bangalore to find time-sensitive solutions at a competitive rate, making use of the difference in time zones and pay scales.
5. Using the internet to scan and search for international business opportunities. This can be a company study or a report. Ideally, students can do their research on the internet and interview representatives of companies that have used the internet to expand internationally.
6. Creating equidistance in viewing the customer: Suggest a strategy where international competitors can be close to the customer whether the customer is located 5 km away or 10,000 km away.
7. An original research project that fulfils the requirement of international marketing and involves both primary and secondary research and is doable in two weeks.

As soon as the project is agreed by the group, a proposal should be written and an approval must be taken from the faculty who will question the students and make sure that the project can be carried out.

QUESTIONS FOR DISCUSSION

1. Define the data needed by an FMCG firm for taking marketing decisions. Also, discuss how the firm should go about collecting the data and using it?
2. Define the following:
   (a) Merchandise export and import
   (b) Service export and import
   (c) Licensing agreements
   (d) Franchising
   (e) FDI
   (f) Joint ventures
   (g) Portfolio investments
   (h) MNCs
   (i) Economies of scale

2 Market Potential of Countries

AIMS AND OUTCOMES OF THE CHAPTER

The chapter is aimed at creating a thirst for knowledge and systematic methods of acquiring the same about the different countries where the company plans to do business. The students of international marketing need to have in-depth knowledge and expertise in the business environment of the host countries, present and likely future competition. It will help the students in planning marketing strategies for those countries.

Before planning international marketing, it is essential to understand opportunities and threats that await a company in the overseas markets. Companies usually start international operations by taking a slow and cautious approach, understandably because of lack of market knowledge. However, this approach could lead the company to lose out on opportunities that are available in the overseas markets. Later on, when the company is ready to give its full thrust to international marketing, the potential business may have died out or gone to competition. Companies need to analyse their core competencies. Besides, they should learn in detail the sustainable competitive advantage that the company enjoys in its home country's market. Next, the company has to know the overseas market it wants to enter and then dovetail the company's strengths with that country's requirements. In this way, the company can utilise its business acumen to the best possible advantage. Which country provides the most appropriate justification for entering its market that would add on to the company's core competencies besides generating the desired revenues? Can the company gain economies of scale of manufacturing, can it diversify its product range or can it innovate its products for better acceptance even in the local market? Maruti's unique selling proposition (USP) is its countrywide service network. Would they like to carry on with the same USP in the international market and would it benefit them there? These questions need to be answered before companies take the plunge in the international market.

A company should find out the country that provides the best ground reality in the following areas:

1. The economic conditions should be such that the company prospers by doing business there.
2. The cultural diversity should not be so acute as to provide a barrier to business.
3. The government regulations should encourage companies from India.
4. The geographic situation should assist in intercountry trade.

These provide a definitive indicator regarding the correctness of a country being selected for international marketing.

A company wanting to go overseas for marketing needs to adopt the following course of action:

1. Selection of the right country.
2. Selection of international organisational set-up.
3. Placement of organisational control mechanism.
4. For operations involving several countries, a coordination system should be in place in order to get optimum benefits from overseas marketing.

Next, the company must decide its objectives for international marketing, its operational planning and strategies for achieving the objectives. The company should study the host country's business environment, both the general factors and the competitive factors. The company has to decide about the country where it has to export as well as the country from where the product should emanate, the production base, as the company can outsource manufacturing to a third country if it is found to be economical to do so.

Companies look for long term sustainable competitive advantage and for this purpose they need to have a differentiated or innovative product and it should be manufactured in a place or country that provides for low-cost manufacturing. Business can pick up in several countries if such a production base is available. At times companies plan overseas sales because they have excess manufacturing capacity in the home country. Companies set up manufacturing facilities in the hope that the market will grow. However, in case it does not come up to the expected levels, companies facing problems of excess production would do well to export the excess production, if possible. When a company sees a good overseas marketing opportunity with no manufacturing base, it may just leave the market. Proximity to the production base does give a company an advantage.

International marketing decisions are based on the following variables that need to be studied carefully by companies:

1. Local demand.
2. International demand country-wise.
3. Location of the manufacturing bases.
4. Competitive manufacturing bases.
5. Distance between the manufacturing base and the markets, both for the company and its competitors.
6. The existing economies of scale or its possibilities.

If a company misses out on any of these factors it may lose out on business opportunities overseas. Once the selection has been made, countries should be listed on the basis of the priority the company wants to give them for starting international marketing. After securing a low-cost manufacturing place, markets should be selected for international marketing. Political stability, geographic proximity and cultural synergy are the other parameters that need careful study. However, companies should not lose out on the time factor as no vacuum of market remains vacant for long. International marketing needs resource allocation in the countries and therefore the order of entry in different countries must be decided with speed. The country that provides the greatest market potential should be the first to be entered. The gross domestic product (GDP) of the country, the per capita income, the balance of payment between the nation and the company's country are other factors that need consideration.

As per the World Bank, as compared to the American economy, the Indian economy is about 20 per cent and is ranked at number six, behind the US, Japan, China, Germany, France. By 2020, the Indian economy is expected to grow to occupy the fourth position, just behind China, the US and Japan. The present market strength of the US, Japan and Western Europe would give way to India–China dominance.

Countries that have geographic proximity, similarities in language, markets and buyer behaviour, tend to find favour with companies planning international marketing. Countries where the governments encourage foreign sellers or at least are not averse to their entry in the country are more acceptable to companies. These countries would allow for the repatriation of profits in hard currency to the home country by the international sellers. Besides, countries that companies want to select for international marketing should have synergy with international marketeers in terms of product quantities, technology fit and cultural acceptance.

Earlier, government-owned firms had tremendous leverage in getting business from the government, including a substantial price preference. In other words, a government-owned firm would get an order for supplies from the government even if its prices were substantially higher. This led to an extensive non-accountability factor as the price could be loaded with factors of inefficiency as also take care of any underhand dealings, which tended to increase the price. It should not be construed that such inefficiencies did not figure in privately-owned firms. Yet, their numbers were few and the accountability factor mostly took care of the inefficient and corrupt elements in the private sector.

Since now we are truly in the age of market economy in practically the entire world, let us take a look at what exactly a market economy is.

MARKET ECONOMY OF THE WORLD

Today, in the twenty-first century, most countries are part of the market-driven economy. It is product quality, price, brand equity and availability of products, which play a major role in market dynamics. These factors have been given the celebrated name of the 4Ps. Product demand is also dependent on the market segment's business environment like demographic, social, cultural, political and legal factors. Competitive factors too play a major role in establishing business shares among the various players.

Factories churn out products with the help of employees, raw materials and consumables and the employees are, in a way, buyers of the products. Employees work for wages and use the wages for making purchases. (The products may be from one factory and buyers from another factory or any other discipline.)

The market economy brings the customer into focus as he gets competitive products to choose from, competitive prices and firms vie with each other in product positioning and placement and in communicating with the customers through a multitude of advertising formats. Firms too are free to opt for certain markets, segments and channels of distribution. Thus, the interplay between buyers and sellers depends on the supply and demand situation and on the strengths of the firms. Their strength comes from product quality, service to the customer and generation of brand equity.

The market economy can be best understood by comparing it with the closed economies of the communist world, where the manufacturing process is restricted by the government and so is the supply. We all have heard of the days of rationing in the Soviet Union. In fact, even in India there was rationing of essential products till the first half of the last century.

The market economy can come to a country only if the restrictions on production and rules to regulate supply and purchase (including imports of raw materials) are removed by the government and the industry is left free to take its own decisions in these matters on the basis of market needs. A look at the pre-1991 era is sufficient to understand the stranglehold the Indian government had on the markets during the period prior to the reforms:

1. For manufacturing any product, firms needed a manufacturing license from the government's ministry of industries.
2. For foreign equity participation and technology transfer very stringent approvals were required from the ministry of industries and the Reserve Bank of India (RBI).
3. For the import of raw materials, a lot of approvals were required from the industry ministry and the RBI.
4. The custom duty on most products was high, it even went up to 300 per cent ad valorem.
5. Interest rates for borrowing was high.

Since 1991, with major changes in the industrial policy, the Government of India has tried to bring the country's economy under market control. Yet, a few more reforms are needed like the full convertibility of Rupee.

For a free economy, the control of the government on business should be non-existent. The government's task should be to safeguard the interests of all its citizens. They should be free to choose their vocation, be it buying or selling manufacturing products, buying or selling property and citizens should be free to pursue it, as they desire, without interference from the government as long as they do not commit any legal transgressions.

In the communist regime, the entire process of production planning, raw materials procurement and doling out rationed quantities was centralised with the government. Seeing the growth and development of the west, most countries of the erstwhile Soviet group have opted out of central planning and are now looking at joining the market-driven economy.

MIXED ECONOMIES

In India, the mixed economy was created with joint sector ventures, where the private players and the government were both partners. While such firms tried to get the best of both, that is, easy government approvals and speedier decision-making process associated with the private sector, in the end, they lost out on both counts as the government felt that their only responsibility was to control the activity of the firm, and the private partner felt that the government was interfering a lot.

Even in purely private firms, there is an element of outside control in the form of directors on their board from financial institutions and the banks that finance them. Besides, there is compulsory statutory audit by outside auditors. Despite these controls, the last few years have seen a large number of scams through either the equity market or fake loan companies. It is in this context that the Government of India is looking for checks and balances and has assigned this task to the Securities and Exchange Board of India (SEBI).

The world over it can be seen that while in China there is a greater degree of governmental control, Japan, where market forces determine the market dynamics, has fewer. While some countries like Hungary and Taiwan are partly under free market with only some governmental interference, countries like Russia and Mexico are not free to a great extent. Likewise, Cuba cannot be considered completely free of governmental interference.

Products like power supply and telecommunication have remained in the government set up in most countries and today in India these products face competition from private firms. This has created an era of competition, much to the benefit of the consumers and it has resulted in the streamlining of government firms in order to make them more efficient. The manufacture and supply of defence equipment is usually the last of the product groups to come to the private sector, while in India, paradoxically, the defence services did not think twice while purchasing their products from foreign private firms.

The discussion on how much of governmental interference is good for a country's economic growth goes on eternally in most countries. Developed countries like Germany, Sweden and France have low level of government ownership. They are highly taxed in the private sector and the money thus collected is used for welfare measures. In France, government ownership of the business sector is very high as compared to the other two. The telecom companies keep shuttling between private and government ownership in France. The Japanese system is based on government's influence on the private sector firms. The Japanese government has been channelling the flow of investments in the direction of its choice by setting targets and giving monetary incentives. The Japanese ministry of international trade and industry guides firms through strategic planning for investment and production with minimal controls.

The other dimension of economic environment deals with whether the country where the firms want to do business is a developed, developing or underdeveloped country. The UN and its subsidiaries have several plans for helping poor nations and Indian firms must take advantage of the largesse offered to such nations by helping them to come up in the economic order. It has been proven beyond doubt that countries that opt for the market economy tend to grow economically faster than those that do not. China and India are typical examples of accelerated growth following the decision to embrace market-based economy.

Politics plays a major role in the life of any country. Countries like the US and Japan believe that in a democratic, free market set-up, customers are free thinking individuals who know what is best for them and they decide the fate of firms in the marketplace. There are no sops or financial crutches available to non-performers. It is therefore easy to understand that only genuine firms that believe in their product and are ready to provide customer satisfaction are going to survive.

Countries which have totalitarianism as their political philosophy believe that firms should not be let loose to cheat gullible customers and restraints are provided through governmental controls and interference in the shape of checkers, inspectors and auditors. Even France during its socialist rule had taken over several of the country's private firms under its hold.

There are, in fact, no truly free economies as even in the US there are economic boundaries like the import quota system for textile imports from developing nations like India. Even the WTO is controlled by the Dollar power, which restricts trade from developing countries through uncalled for restrictions and stringent product specifications. The other impediments to free economic trade are trade pacts and trade zones.

It can be safely concluded that each country has its unique system of private and government ownership and control, depending on their system of governance, their status in the development process and their political situation. Therefore it becomes imperative for firms entering foreign countries to understand the type of economic conditions that prevail in the overseas markets they plan to enter.

For the benefit of new entrepreneurs it is necessary to put countries into economic zones. The competitiveness of countries in the international market depends on the following factors:

1. Production and productivity.
2. Demand and its management.

Production factors are based on the following:

1. Capital resource
2. Human resource
3. Information resource
4. Infrastructure
5. Physical resource
6. Management

Firms have to set up resource systems for these in different countries, which would define the firm's production and its productivity. Demand and its management would include the home country's demand and its growth and international demand. The best way to ascertain demands is through market research.

CLASSIFICATION OF COUNTRIES

Countries are classified on the following basis:

1. Gross national product (GNP)
2. Gross domestic product (GDP)

3. Per capita income
4. Quality of life or lifestyle
5. Purchasing power
6. Macroeconomic factors

The GNP is in essence the sum total of a country's economic activities and can be defined as 'the value of goods and services produced during the year from the country' resources'. The actual manufacture could take place in the country or even outside it.

The GNP is the sum of domestic production plus the moneys received by residents from overseas on account of labour or capital investments by way of dividends reduced by the outflow of money made to non-residents.

The GDP takes into account the entire domestic production irrespective of the fact whether the production is from domestic resources or foreign. It describes the economic activities within the borders of the country.

The World Bank has, however, accepted GNP as the true representative of a country's wealth for working on the Bank's analysis of development plans in the country. Based on 1994 figures, the classification of countries on the basis of per capita income is provided in Table 2.1.

Table 2.1 Classification of Countries on the Basis of Per Capita Income (1994)

Low income	US$ 725 or less
Lower-middle income	US$ 726–2,895
Upper-middle income	US$ 2,896–8,956
Middle income	US$ 726–8,956
High income	US$ 8,957 or more

The low- and middle-income countries are known as developing countries, while high-income countries are the developed ones. The classification has since been changed to include countries with economies in transition (CEIT) like China, Russia and Cuba.

The World Bank has categorised countries on the basis of per capita income and GNP as given in Table 2.2 (only selected countries have been included in the list. Notice that with the exception of Australia and New Zealand, the rich countries are located in the northern hemisphere).

While the rich nations comprise only 20 per cent of all the nations, they generate almost 80 per cent of the world GNP. Countries in low-income category comprise about 30 per cent of all the nations but bring in only about 5 per cent of the world GNP.

The World Bank believes that while GNP is a good indicator of a country's wealth, it does not tell about the benefits accruing to developmental works. The purchasing power parity tells about the purchase value of the local currency in the home country, against a one-dollar purchase value in the US. The purchasing power of the local currency is compared to that of the US dollar.

Lifestyle is measured by taking into account the following:

1. Life expectancy
2. Education levels
3. Healthcare programmes
4. Income and allocable surplus as purchasing power
5. Welfare of women

Table 2.2 Country Classification on the Basis of Per Capita Income and GNP

Rich countries per capita GNP US$ 8,957 or more	*Upper middle per capita GNP between US$ 2,896–8,956*	*Lower middle per capita GNP between US$ 726–2,895*	*Low income per capita GNP US$ 725 or less*
Australia	Argentina	Bolivia	Afghanistan
Austria	Brazil	Bulgaria	Bangladesh
Belgium	Chile	Croatia	China
Canada	Greece	Cuba	Egypt
Denmark	Hungary	Indonesia	Ghana
France	Korea Republic	Iran	India
Germany	Malaysia	Iraq	Kenya
The Netherlands	Mauritius	Jordan	Mongolia
New Zealand	Mexico	Korea Dem. Rep	Myanmar
Spain	Oman	Lebanon	Nigeria
Sweden	Saudi Arabia	Morocco	Nepal
United Arab Emirates	South Africa	The Philippines	Pakistan
UK	Uruguay	Poland	Sri Lanka
USA	–	Russia	Zimbabwe

As per surveys conducted in 1996, the top five countries, which emerged as winners in these criteria, were:

1. Canada
2. USA
3. Japan
4. Holland
5. Norway

In the list of 174 countries, India's rank is 135, China's 108 and Russia's 57.

In many countries, while wealth generation is taking place, the rich are becoming richer and the poor remain as they were. Despite this, most people in the world are satisfied with their lot and believe that they are living in a world that is better than the world in which their parents grew up. However, they also believe that their children will be living in a world that will be worse than today's world. India's philosophy of contentment under any circumstances has left many citizens so occupied with their miserable existence that they know nothing better.

Pakistan, on the other hand, has a lot of petro-dollars coming in via the Gulf, which has given their middle class a better standard of living than their counterparts in India. However, the war hysteria in Pakistan does not allow the extra wealth to be of good to the country as they use it for honing the war machinery.

With the opening up of the country's markets to the world, customers now have a choice of different brands and the urban markets are replete with durable goods of international standards.

Coming to macroeconomic factors, developing countries like India have their GDP distributed along the following lines:

1. Agriculture—30 per cent
2. Industry—30 per cent

3. Manufacturing—25 per cent
4. Service—15 per cent

For a developed country like the UK, the distribution is:

1. Agriculture—2 per cent
2. Industry—32 per cent
3. Manufacturing—22 per cent
4. Service—66 per cent

Nations from the affluent group are more service oriented. Most of their requirements are met with imports as with high-labour costs they can not produce goods economically as compared to less developed nations. Hence the stress is on the service industry, which caters to the recreationary needs of the population. This is directly related to the quality of life in these countries.

The communist theory was equal distribution of whatever wealth exists, while the market economy looks at increasing the wealth and believes in its distribution as per individual efforts in producing the wealth, which would indirectly make every one richer than what they were.

ECONOMIC GROWTH

The business and economic activities in any country depend on a stable government, low inflation rates and high growth rates. India is aiming at 6 to 7 per cent growth each year. Similarly, other developing nations can plan growth rates and by 2020, 60 per cent of the world GNP could be from today's developing countries. The rich nations want to invest in high-growth countries like China, Malaysia and Mexico. Poor nations like India and Pakistan miss the foreign direct investments (FDIs). India has started getting FDI as a result of the government's new industrial policy. However, more needs to be done. It is hoped that with a stable government and increase in reforms for inviting FDIs, there will be a substantial improvement in FDIs. Today, India gets about 10 per cent of the FDI that China gets.

INFLATION

Inflation is the measure of a country's cost of living, interest rates and exchange rates and it involves the political and economic system of the country. It is the consumer price index variation over a period of time. Inflation can cause an increase in interest rates to offer real interest on interestable assets, as also for slowing the economic development rate to fight inflation.

THE POLITICAL AND LEGAL BUSINESS ENVIRONMENT

There are several forms of government prevalent in the world that have impact on the countries economies. Political will usually defines the way countries face their economic situations. It was in 1991 when India opened its doors to foreign companies as it joined the market economy of the world. A country's political system and its political thought provides the boundaries within which its economy operates. Several countries have opted for the privatisation of their business, trade and commerce. There are areas of exploitation of the weaker sections of society, minorities, ethnic groups and women in certain countries. International marketeers must consider the risk that lurks around countries due to their political situations like large numbers of political parties that always have daggers drawn towards each other. Besides, corruption in high places, political unrest, terrorism, insurgency and religious fundamentalism create tensions that undermine the economic development of a country. Economies progress gets impeded when there are threats of terror attacks and political instability. The World Trade Organization (WTO) and other international bodies provide assistance in a variety of ways to nations for their economic development. Companies must get to know about these helps to make full use of them.

Companies have to understand a country's legal system, its laws relating to trade, commerce and outsourcing. When operating in the international arena, companies need to respect the laws of the land, including those related to taxation, employment, purchasing and reports to be submitted by the company to the host government. In most countries, corruption and bribery work. Companies must clearly define the level up to which the management is willing to abide by the dictates of the host country without compromising on its principles. Countries do have counterfeit trade using substandard materials.

Companies will do well to understand the political risks in doing business in the host country. In the 1960s, China decided to uproot all the oil companies with no notice. Employees were asked to leave the country within 48 hours.

Companies need to understand the difference between subsidies, tariff, corruption, bribery, grey markets and black markets. It is also important to know the laws relating to intellectual property rights, copy rights, patents and trademarks applicable in the host country.

Hawala transactions, that is, the underhand transfer of money through dubious means, bring into existence a parallel economy in certain countries. There are different modalities for money laundering in different countries.

Companies need to be aware of the local legal environment and the foreign and international legal environment. Laws of the host country regarding international companies must be respected if the company wishes to do business in that country. Foreign laws are applicable to outside companies, expatriates operating in the host country and these too must be respected by the company. International business laws relate to the dealings between two nation companies and they guard the interest of both, the seller and the buyer. There are provisions for arbitration in case of international disputes. For instance, certain countries ban the import of certain products. Counterfeit money, drugs, pornographic material and espionage equipment are usually not permitted to be imported in most countries. Bribery or 'speed money', as it is euphemistically called, constitutes an unwarranted illegal act and must be eschewed by companies.

The Government of India had for a long time the infamous Foreign Exchange Regulation Act (FERA). This was used to harass international players. It has since been substituted by the Foreign Exchange Management Act (FEMA), which helps companies in operating their foreign exchange account in an optimum manner. It helps genuine importers in making payments against supplies to foreign suppliers.

Governments of countries run on three basic structures, the legislature, the bureaucracy and the legal structure. Besides, the political parties play their role in either running the government or sitting in the opposition as the watchdogs of the country's population. The major difference in governance comes from the form of governance the country has adopted, that is, whether it is a democracy, a dictatorship, a monarchy or a constitutional monarchy. Fascism is again raising its head in some countries as a philosophy of governance.

Firms planning international marketing have to keep scanning both the domestic and international environment. In a democratic set-up, politicians who are the elected representatives of the people play an important role in framing the industrial policy of the country. Suggestions and advice from businessmen, industrialists, trade bodies and financial institutions help the government to look for alternative plans. Once finalised, these plans are implemented and monitored by the political powers, the bureaucracy, the legislature and the judiciary. The control mechanism of the government gives feedback about the success of the plan and it is then suitably modified if required.

The sociopolitical plans of a country are based on the ideology, the political will, and the aims and the objectives of its government. Countries with several languages, several religions and a variety of ethnic groups, have a multifaceted ideology. India is a good example of a nation of diverse beliefs and yet one having unity in diversity. In India, the political system has been tested several times since independence, and the struggle is still on with religious fundamentalists of both the major religions vying for power and political parties trying hard to use their muscle power.

A democratic system ensures the following to its citizens:

1. Freedom of speech, opinion, freedom of the press.
2. Elections of legislatures on the basis of adult franchise.
3. Limited time for elected representatives.
4. Independent judiciary.
5. Non-political bureaucracy and defence forces.
6. Mostly transparent decision-making process.

The success of a democracy lies in fulfilling these obligations to the citizens of the country in a fair and free manner. Citizens are guaranteed the following freedoms in a democratic set-up:

1. Freedom of press
2. Equality of all citizens before the law
3. Personal social freedom
4. Freedom from governmental apathy and corruption

India has seen the coalition form of government for the past few years. This may well become the way of governance in the country. This form of government suffers from being indecisive on most of the governmental issues and it carries a wrong impression that the country is not yet ready for foreign investments.

India has adopted the British parliamentary system of government. There is a lower house, the Lok Sabha (akin to the House of Commons) and an upper house, the Rajya sabha (akin to the House of Lords). Elections to the Lok Sabha are on the basis of adult franchise, while for the Rajya Sabha they are based on the votes of the elected representatives of the federal states.

The Manager and the Political System

Business has to cope with governmental interference in its working as also with the instability of governments, which has become part of many countries' fate, more specially India. In a democratic set-up, the government has to ensure that its citizens are free to do what they want, where they want to do it and how they want to go about doing it. Protection of human rights, people's welfare and correction of market problems, like entry or exit barriers, communication with the consumers about their rights are the duties of the government. The political process like bilateral treaties, conventions and trade zones are the areas that the manager has to deal with. Therefore it is important for firms to understand the governmental laws, rules and regulations that are applicable for doing business in that country. In each country, a number of governmental agencies are involved with international trade. In some countries there are facilitating agencies while in others there are policing organisations. For example, in the US, the following agencies look after non-agricultural exports:

1. The state department
2. The department of defence
3. The department of commerce

Firms must plan their strategies for meeting the political challenges the host country throws at them. For this purpose they must understand the particular issue at hand, that is, they need to know whether it is an ecological and environmental concern, concern about protection of the local industry through high import duties or the laws regarding the hiring of the workforce. Firms should assess the actions of competitors on these issues, the success rate and the politically strong lobby, which is ready to take up their just cause with the government. Next, firms should plan their strategy, while keeping contingent plans ready, in case the first strategy misfires due to any reason. Proper care needs to be taken while implementing the strategy with the planning process criteria kept in mind.

The Legal Environment

Most countries follow a legal system that has either evolved there over time or has been adopted from some theocratic decree. England is considered to be the oldest democracy and it has an unwritten constitution, which works on precedents, traditions, customs and their usage. The law there is the common civil law. In most countries, similar civil laws have become prevalent. These laws are interpreted and enforced by the countries' judiciary. The common civil law has become the codified legal system; the codes form the basis of doing business in more than 70 countries of the world.

The other legal system is the theocratic system, which is followed by the Islamic countries of the world. It is based on the Koran, the sayings of Prophet Muhammad, writings of Islamic scholars and the legal communities of these countries. In the Islamic system, charging interest on loans is an offence. Business with these countries if it involves leasing or credit with payable interest should be eschewed as it may be a punishable act under their law.

The law in general is categorised as civil and criminal law. Till recently, bank-cheque bouncing was only a civil offence in India. Now it has been made a criminal offence. Bouncing cheques could lead to the imprisonment of the defaulter.

The business laws of the countries firms want to operate in must be understood thoroughly as *ignorance of law is no excuse.* Of special interest could be the laws relating to patents, environmental issues, anti-trust laws, employment laws, investment and technology transfer laws, which must be fully understood.

INTERNATIONAL BUSINESS AND THE CULTURAL DIVIDE

> *An Example of a Company's Value System*
>
> ABB is a Swiss firm, is a supplier of power plants, electrical equipment in 140 countries of the world. They have a single value system across their business empire spanning the 140 countries. They believe that this has given them a competitive advantage over renowned firms like Siemens, Alcatel-Alsthom and General Electric (GE).
>
> ABB has a concept of no geographic divide in the firm, it has only home markets and they draw their strengths from their global entity. They have 500 managers who adapt to the local conditions and yet go by the global strategies of the firm. They truly believe in staying local while thinking global.

From the stone age, people have been living in societies, made of persons of different disciplines and work areas, but having a common link, which can be defined as their culture. Culture is made up of people's customs, beliefs and ways of doing things. The evolution of religions, concepts of family based on a husband and wife and their children are some aspects of culture as we see it today. The members of a society start having similar attitude, beliefs, values and concepts of a good life. A country's climate, its religions can influence its culture.

Societies are formed with members of linked families. Religious affiliations, common professions, political affiliations too form societal groups, where the members of one group tend to behave in a similar manner under similar circumstances and given the same type of stimuli.

Overseas firms hire people from their host country. The compensation and competence rewards should conform to the local customs. In many counties, hiring is encouraged from the area in which the firm is based in the country. In India, the local factor is increasingly taking roots in several states. For instance, the Karnataka government wants that firms operating in Karnataka should recruit people from the state as far as possible. Each country has its own conventions regarding family pensions, equal pay for male and female workers and retirement benefits. In certain countries, there is government influence on the recruitment of staff.

The attitude towards male and female workers is widely different across countries. India, China and some other eastern countries have a distinct preference for male workers. Islamic countries have, at times, banned the recruitment of females except for the medical profession and as teachers. In Japan, the wives of workers are supposed to stay away from the workplace, unlike in the west where the spouses of workers are invited to annual dinners and are encouraged to feel part of the firm's family.

The hiring and retiring age is different in different countries. In some countries, age and experience is valued, while in some the youth get all the benefits. In the US, an achiever gets the reward irrespective of his age and it is common to see young persons in the age group of 25–35 being promoted as chief executive officers (CEOs) of companies. In some developing countries, junior-level executives are kept under tension in the belief that they perform optimally only under pressure. In most countries, because of the competitive environment, workers have to be result oriented if they hope to advance in the firm.

A major problem in India and several other countries, both developed and developing, is that of loss of ethical values. The government officers, together with the firms have created a cover of corruption in the entire business world, and this is true in varying degrees in most of the countries. In going overseas, the dilemma of falling in line for getting the work done by paying hush money is great. However, firms must be ready to bear with the consequences of being caught in the dirty game, which could mean the end of their sojourn in that country and much more, like arrests, or penalties.

The language of the host countries can be of great importance while doing business with them. English has become the language of business the world over, yet countries like France, Germany and Japan prefer to have the business contractual documentation done in their own languages. Knowledge of languages, including the expertise in translating the document in English without loss of its subtle candour is of utmost importance. English also has several versions— American English and Australian English are a bit different from English spoken in the UK and in India.

The language subtleties can cause a lot of problems if they are not understood properly. For example, in the US, if a product were to be sold at cost, it would mean without giving any discount, while in India it would mean selling without any profit.

Firms have to consider the cultural divide that exists between their country and the host country and decide whether to adopt the host country's culture while doing business or stick to their own culture. They can adopt the following three policies in this connection:

1. Global
2. Multi-domestic
3. Hybrid

In the global strategy, a firm can retain its home country's culture in the different nations they do business in. English-speaking western countries bring their own culture with them while doing business. The spread of western culture in India can be attributed, to some extent, to foreign firms operating in India. The popularity of jeans, western attire, preference for western music and discos can be attributed to this phenomenon. Managers working with global outlook are supposed to conform to the work ethics and cultural ambience of their home country. The American anti-trust laws bind American firms across the world.

In a multi-domestic strategy, the firm adapts its working style to the culture of the host country. In India, the Swedish firm Bofors tried this by believing that the only way to get their work done was through the use of speed money and it backfired. Yet, local managers can perform better if they are given the freedom of going by the host country's culture and following the dictum of 'When in Rome, do as the Romans do.'

The ideal situation is to adopt a hybrid culture, which is a mixture of the home country's culture and that of the host country. The cola firms use the cultural ethos of the host country. They use local festivals to promote their products.

Americans are hard negotiators in business, but once the deal is finalised they believe in informality, including getting to be on first name basis. In some countries of Europe like Germany, this would not be acceptable at all. Visitors to African countries are often in for a cultural shock as the way the people dress and interact with foreigners is quite unusual. However, when a manager gets posted to a particular country, he starts learning the ways of the host country and may after a while start enjoying the same. It is best to spend some time as a tourist in the country where business is to be conducted before actually shifting there. For the purpose of understanding, the main countries can be grouped as far as their cultural ambience is concerned:

1. English-speaking countries: Australia, UK, USA, Ireland, South Africa, New Zealand.
2. Middle East countries: Kuwait, Oman, Iran, Iraq, Saudi Arabia, UAE.
3. Far East countries: Singapore, the Philippines, Taiwan, Malaysia, Indonesia, Thailand.
4. The north European countries: Denmark, Norway, Sweden, Finland.
5. Countries of middle Europe: Germany, Austria, Switzerland.

6. Southern European countries: France, Italy, Spain, Portugal, Belgium (these countries have a Latin influence).
7. East European countries: Russia, Turkey and the CIS countries.
8. South American countries: Argentina, Chile, Mexico, Brazil.

For the sheer vastness and cultural diversities that exist, the following countries have been singled out:

1. India
2. China
3. Japan (its unique culture defies clubbing with any group)

The main area of understanding a country's culture could prove to be its value system. What firms can do and can *not* do in a country must be fully understood and appreciated not just by the managers operating in the host countries, but more importantly by the decision-makers in the home country.

The economic level of the host country, at times dictates the work culture. In rich nations, managers can afford to take holidays, while in poor countries, workers have to earn on a daily basis to feed their families. The political system has a bearing on the culture of a country. In a democracy, citizens have the right to work, but with the influence of worker unions, the right to strike work can become prominent, especially for foreign firms. Labour laws, negotiation rules are areas of complexity unless knowledgeable people are involved in solving the problems when they arise.

Foreign firms can plan to go by the host country's cultural ethos. They must do so by calculating the cost of adopting the culture. If the colour green is a must for all products, it could mean realigning the entire range of products, packaging, advertising and promotion plans.

There are a few major cultural differences amongst countries. In Islamic countries, the green colour is preferred over other colours. In China, yellow is a colour associated with the gods and it can not be used for mundane activities. White in most countries is the colour of purity and that is why a bride wears white. In India, however, white is worn by widows and by others at the time of mourning.

Table 2.3 provides a checklist for understanding the business environments of different countries:

Table 2.3 Comparison of Business Environment amongst Countries

	Home business of industrialised country	*International business of industrialised country*
Language	One (mostly)	Many
Education system	Easy to understand and adapt to	Problems in adaptation
Social, cultural ethical environment values, attitudes, risk taking attitude, scientific methods at the work place	Homogenous	Heterogeneous
Social set-up	Similar	Different
Political system	Country centred	Transnational
Legal system	Uniform	Different
Sovereignties	Same	Different
Government policies	Same	Different
Economic development	Similar stage	Different stage
Economic system	Same	Different
Tax laws	Same	Different

The HSBC Bank has been operating in several countries and can justifiably be called a multinational corporation (MNC). It describes its business credo as follows: Never underestimate the importance of local knowledge and adds:

> To truly understand a country and its culture you have to be a part of it.
>
> That is why at HSBC we have local banks in more countries than anyone else does. And local people staff all our offices round the world.
>
> It is their insight that allows us to recognize the financial opportunities invisible to outsiders. But those opportunities do not just benefit our local customers.
>
> Innovations and ideas are shared throughout the HSBC network so that everyone who banks with us can benefit.
>
> Think of it as local knowledge that spans the globe.

This type of hybrid mixing of cultural ambience has helped several MNCs achieve their global objectives.

TECHNOLOGICAL ENVIRONMENT

The level of technology in countries differs and is related to their economic development. Most technically advanced nations have research and development (R&D) organisations in many fields in place. Most of the developing nations either resort to buying the advance technology products from the nations possessing them or they buy the technology from them. In India such technology transfers or purchases from different countries have been in vogue for the last 50 years. The problems that firms buying technology face are:

1. Mostly old or outdated technology is sold to avoid direct competition.
2. The manufacturing equipment sold with the technology is usually sold at jacked up prices.
3. At times even used or reconditioned equipment has been sold.
4. There is pressure on the firms buying the technology to purchase completely built units (CBUs) and semi-knocked down (SKD) units, of the product under technology transfer for a period of time or for a given number of units.

This has resulted in firms going for reverse engineering of the product, where they buy a few pieces of the product from a number of international firms, cannibalise the products to see how they are inside and how they can be assembled locally. For this reason, it has been accepted by most firms owning technology, that they cannot hold on to the technology on an exclusive basis in the rapidly changing business environment in the midst of an information blitz.

DEFINITION OF MARKET PROFILE

The concept of market profile stems from the idea that markets have a form of organisation determined by time, price and volume. Each day, the market will develop a range for the day and a *value area,* which represents an equilibrium point where there are an equal number of buyers and sellers. In this area, prices never stay stagnant. They are constantly diverging and it is over here that market profile records this activity for traders to interpret.

In relation to this, market profile does not provide buy/sell recommendations but acts more like a decision-making tool. It organises the data so that one can understand *who is in control of the market*, *what is perceived as fair value* and the *direction of the price move*. It is possible to extract enough information from market profile for one to position one's trades more advantageously.

In relation to this, market potential can be broadly defined as the total level of sales achievable in a market assuming that every potential customer in that market is buying, that they are using the product on every possible occasion, and that they are using the full amount of product on each occasion.

Market profile can also be defined as a summary of the characteristics of a market, including information of typical purchasers and competitors, and often general information on the economy and retailing patterns of an area.

Because market profile is a graphical organisation of price and time information, it reveals important pricing patterns from any market as they develop. By effectively organising price and time information, it is possible for traders to see which price areas the market is accepting or which ones it is rejecting and adjust their trading styles accordingly.

The study of market profile, thus, is quite important as it provides an indepth understanding of the market and contributes to improved sales.

SUMMARY

Managers in the host country must be able to focus on the governmental attitude towards foreign companies. They must learn about the tax laws, legal formalities and issues regarding laws governing employment. Managers should have a good knowledge of the local customs, which affect consumer behaviour.

Cultures of countries are unique and firms appreciating this uniqueness would do well in the countries they operate in. Technological advances, media avenues, retailing channels should be dovetailed to suit the country. Managers have to learn that, unlike in their own country, the selling action is controlled by various factors, including economic levels, infrastructure facilities, transport, communication problems, which would be new to the outsider. Globalisation of business has brought a large number of MNCs into each country, creating severe competitive situations. Managers would do well to know the 4Ps of their competitors and plan the strategy of their own 4Ps taking them into account. Product positioning, advertising and promotion, pricing and distribution channels need an innovative approach to gain a sustainable competitive advantage, which is the key factor in a firm's success.

Technological supremacy can give firms a head start, but firms cannot keep that advantage for long as in no time better *me too* products invade the market. Patents can create problems for firms that copy, but in a host country, the legal tangles can sap profits in no time. Managers have to keep themselves abreast with the latest products to be able to ensure that their own innovative products keep giving them a head start.

Answer Cases

1. Which company is transnational? Answer questions 1–3. Hint, a pure transnational company does not exist.
2. Are Coke and Pepsi in trouble in India? Answer questions 1–3.

Work in groups of ideally four students. Prepare a presentation on 'Which company is transnational?'

* * * * * *

International Marketing Game 2.1

Assuming that following Part One of the International Marketing Game, teams have been formed, the countries selected and the teams have decided about the product the company wants to export, the teams need to do this: Scan the general business environment factors—demographic, social, cultural, political, legal, macroeconomic, technological and global—that would have an impact on the business of the company.

The General Business Environment

The following areas need to be studied, assessed, screened and monitored in the context of the country for correct planning of marketing strategies:

- Demographic Factors: these are brought out in the census of the country, factors like, population dispersion in towns, villages, income levels for families, sex ratios, religious numbers. Shifts of population from villages to towns, from small towns to metro towns provide business opportunities, which no marketer can afford to miss. For a start low cost housing, clothing's, transportation eateries are needed.
- Social Factors: like increase of working women in towns at all levels of income. It has given rise to a big boost in demand for time-saving equipments like washing machines, vacuum cleaners, microwave ovens, precooked foods. As women are coming out of homes, better dresses, cosmetics, health gyms are required. With double family income, leisure time activities like holiday outings and travels are looking up.
- Cultural Factors: India is a land of rich cultural heritage. Its culture is rich and diverse. Marketeers and advertisers take full advantage of knowing the buying season in different parts of the country. During Deepavali, Hindus buy new clothes, household articles and exchange gifts. Muslims do it on Eid, Christians on Christmas. The cultural ethos provides innumerable

(*continued*)

themes for promoting sales. India is a vast country, with twenty languages spoken, several religions and varied cultures and sub-cultures. For example, in Punjab, there is the Punjabi culture and with in there is the Sikh subculture. Karnataka has the kannad culture and then its district; Coorg has its own subculture.

- Political Factors: it was the political will of the then government, which led to LPG (liberalisation, privatisation and globalisation) in 1991. The influx of foreign capital, setting up manufacturing bases, joint ventures all sprung up from then onwards. Changes in Cash Reserve Ratio, taxation rates, duties are the political factors which have a major impact on business.
- Legal Factors: Supreme Court's directives have made car manufacturers change the emission standards to Euro II. Diesel buses are on their way out in Delhi for the same reason. Ignoring the law of the lands can be detrimental to the interests of the firms operating in the country.
- Macroeconomics Factors: the interest rates, taxes and duties, balance of payment situation with the countries the firm wants to do business with, foreign currency rate fluctuations have major impacts on business and they must be well understood by the firm.
- Technology Factors: in the past decade, information technology, telecom, biotechnology, genetic engineering have revolutionised the business scene in the world as also Indian business scene.
- Global Factors: from the last decade, breaking of the Berlin wall with reunification of Germany, breaking up of the USSR, and more recent attack on the World Trade Centre in New York, on the Indian Parliament, liberation of Afghanistan have affected business worldwide and most countries are trying to recover the lost ground. On the brighter side the development in the area of medicine, agriculture and farming cloning of the sheep have helped in the giant strides the world is taking towards a better future for its children.

QUESTIONS FOR DISCUSSION

1. What are the major objectives of international marketing?
2. The role of technology in international marketing.
3. Discuss the bilateral agreements on FDIs.
4. How to rank countries for taking marketing decisions? How to prioritise them?
5. Discuss the different types of political risks in international marketing.

3 International Organisations

AIMS AND OUTCOMES OF THE CHAPTER

International Marketing is, to an extent, controlled and supported by a number of world organisations, which are offshoots of the United Nations Organization (UNO), including the World Trade Organization. These organisations have different countries where they help, monitor and even arbitrate in cases of dispute. Hence, the students can get a wide view of these organisations that will help them in approaching the right organisation in times if needed on behalf of the companies into international marketing.

After the end of World War II, the nations of the world decided to start a monitoring organisation to avoid the recurrence of war and they formed the United Nations Organization (UNO). The UN accepts the fact that globalisation has brought about several advantages to the population of the world:

1. Faster economic growth.
2. Higher standards of living.
3. New opportunities for international business.

It has also given impetus to international crime, terrorism, drug and arm trafficking, albeit unwittingly. The UN is determined to make globalisation an engine of positive change in the lives of people living in poverty and misery. It should not be used to take people in the negative direction.

The UN acknowledges the fact that poverty and inequality are the breeding grounds of conflicts. Wars have claimed more than five million lives in the last decade. Once the UN can come up with conflict prevention ideas, peace-building activities would become the harbinger of wealth for even the poor nations, as the world would generate more wealth. The US- and the UK-led attack on Iraq has brought the UN to a bit of oblivion, but its developmental agencies must take the initiative now to further the aims of the UN.

The UNO has since its inception tried to form political, commercial and socio-cultural bridges between member nations. Its member bodies include United Nations Development Fund (UNDP), the United Nations Conference on Trade and Development (UNCTAD), International Trade Centre and the United Nations Industrial Development Organization (UNIDO). These bodies provide support to developing countries like India. It is, therefore, necessary to understand how these operate in order to be able to take their assistance in business internationally. Besides these organisations, there are international banking and trade organisations like the World Bank, the International Monetary Fund (IMF), the International Finance Corporation (IFC) and the World Trade Organization (WTO).

THE WORLD TRADE ORGANIZATION (WTO)

In order to ensure free trade between member nations, the members of the UN set up the WTO, which is *supposed* to monitor, regulate and assist in trade between nations. It started off as the General Agreement on Trade and Tariff (GATT). This was basically for trade in merchandised goods. The WTO includes goods, services like international telephones and creative works and intellectual property rights. WTO is a formal structured organisation with its rules binding on its members. It is also meant to settle disputes between nations. It has a mechanism for arbitration and has an appellate body where nations aggrieved from the decisions of arbitration can appeal against the same.

While the GATT had 128 members, the WTO has nearly 140 members, with more wanting to join. The WTO has its headquarters in Geneva, Switzerland. Its three main tasks are to:

1. Administer and police the existing and new free trade zones in the world.
2. Oversee world trade practices.
3. Settle disputes.

It was in 1995 that the WTO came into existence.

Background

There were seven years of long fruitless negotiations, known as the Uruguay Round of trade talks. Then the new apex body, the WTO was formed. It came into existence on 1 January 1995. It is vested with the authority to make rules and regulations governing international trade and to enforce the same among the member nations. The WTO has faced some problems:

1. European union farmers receive huge subsidies that give them an extra edge over others in agricultural products in international trade.
2. The multi-fibre agreement for trade in textiles is another example of managed trade. The agreement sets quotas for import to certain countries like the US, by other nations and the exporting nations cannot exceed the quota limit.
3. The removal of these and similar biases are planned by the WTO; it may, however, take some time before the quota in textile trade is fully removed making it part of free trade.

For the developing nations, however, WTO has some negative aspects as trade, finance and development go hand in hand and developing nations need extra support for their growth. In fact, it can be seen that the developing nations are also large markets for the developed nations and therefore their development is in the interest of the developed nations too. It is imperative that a level-playing field is created between the two, the developing and the developed nations with special emphasis on the weaker nations.

The WTO needs to focus on the following areas:

1. Managed trade: While the objective of free trade remains, yet most nations have non-tariff based trade barriers. These include critical and almost impossible product specifications, testing methods and source verification of components and raw materials. Outsourcing from international manufacturers, the essence of international trade is getting warped.
2. Free trade: While trade may be free, does it also give a fair share of trade profits to the trading partners? Profits, employment, foreign exchange earnings, technology upgrades, production capacities, infrastructure development and building of institutions keeps the parity between rich and developing nations a dream only.
3. Market entry: Even within the WTO regime, powerful nations have the facility to safeguard their interests while the weaker nations have no option but to follow the WTO rules. The best option for these nations is to accept the existence of the WTO and then work to get the best possible advantage of its rules. Each market has some internal forces at work like the political set-up, level of liberalisation of the economy and its infrastructure. Developed nations have made the entry of products from developing nations very difficult by introducing several measures, product specifications being one of them.

Hence, nations like India need to take the following steps to make themselves ready for the global market:

1. Have clear goals and strategies.
2. Use the country's strong points as strategic options and make correct assessment of bargaining power during the negotiation rounds of WTO meetings.
3. Ensure dynamic coordination between nations with similar ideas/problems.

Work on these issues has been going on and it needs to be intensified with a sense of urgency. The WTO, it must be understood is here to stay and it would be prudent to get the best out of it. It is for everyone's benefit in international trade. Nations should help improve the competitiveness of its trade with help in getting access to better technology, better infrastructure support and management. There could be assistance to domestic trade to enable it to compete with world players on a level-playing field.

India as a member of the WTO has to accept and honour its rules. India should therefore have an integrated plan of complying with WTO rules. It could be done in the following manner:

1. Help firms get better technology and management, organise state of the art infrastructure support to make them competitive in the country and globally. Technology should meet with the best in the range available anywhere in the world.
2. Remove internal hurdles for firms to prepare them for international competition.
3. Phase the introduction of globalisation and liberalisation to give breathing time to firms to adjust to international competition.
4. Help in strengthening antidumping institutions and competition by identifying the areas of dumping, the damage it is causing to the affected countries. The reasons for dumping including industry capacity and financial muscle should be understood.
5. The WTO accepts the link between law and economics. Legal battles fought in foreign countries are expensive. Experts and consultants in the area of the WTO should be roped in. They should be able to coordinate with their international counterparts.

WORLD BANK

The World Bank is a group of five institutions—the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID)

The aim of these agencies is to reduce poverty around the world by assisting the poor nations in their economic development.

International Bank for Reconstruction and Development (IBRD)

The Bank provides loans to middle-income countries and credit-worthy poorer countries. The Bank obtains 90 per cent of its capital through the sale of bonds in the international capital markets. In 1999, the Bank committed US$ 29 billion for institution building, governance, economic policies and social protection, which got the bulk of the amount. This was meant mainly for the removal of poverty with support to the social sector. The total lending of the Bank is to the tune of US$ 300 billion.

The IBRD is one of the five institutions that forms the World Bank group. It came into existence on 27 December 1945. The IBRD is an international organisation whose original mission was to finance the reconstruction of nations devastated by World War II. Now its mission has expanded to fight poverty by means of financing states. Its operation is maintained through payments as regulated by the member states.

The IBRD provides loans to governments and public enterprises. As most developing countries have considerably lower credit ratings, the IBRD can lend to countries at interest rates that are usually quite attractive to them, even after adding a small margin (about 1 per cent) to cover administrative overheads.

The IBRD was established mainly as a vehicle for the reconstruction of Europe and Japan after World War II, with an additional mandate to foster economic growth in developing countries in Africa, Asia and Latin America. Originally the bank focused mainly on large-scale infrastructure projects, building highways, airports and power plants. As developmental activities started taking place in Japan and other European member nations, the IBRD shifted its focus entirely on the developing countries. Since the early 1990s, the IBRD has also provided financing to the post-socialist states of Eastern Europe and the former Soviet Union.

The International Development Association (IDA)

The IDA provides loans at very low rates to the poorest nations of the world. The bulk of IDA's resources come from contributions from the richer IDA member countries, who are asked to replenish their contributions every three years. The loan repayments start only after a grace period of 10 years.

The IDA was created on 24 September 1960 and is a specialised agency of the UN. The IDA is a part of the World Bank. It helps the world's poorest countries reduce poverty by providing them interest-free loans and some grants for programmes aimed at boosting economic growth and improving living conditions. The IDA funds help these countries deal with the complex challenges they face in striving to meet the millennium development goals.

The IBRD and IDA are run on the same lines. They share the same staff and headquarters, report to the same president and evaluate projects with the same rigorous standards.

The IDA lends to those countries that had an income of less than US$ 1,025 per person in 2005 and lack the financial ability to borrow from the IBRD. Some 'blend borrower' countries like India and Indonesia are eligible for IDA loans because of their low per person incomes although they are also eligible for IBRD loans because they are financially credit-worthy. Eighty-one countries are currently eligible to borrow from the IDA. Together these countries are home to 2.5 billion people, half of the total population of the developing world. Most of these people, an estimated 1.5 billion, survive on incomes of US$ 2 or less a day (see Table 3.1).

Table 3.1 Top 10 IDA Borrowers (FY '05)

Top Ten IDA Borrowers (FY '05)	*$ million*
India	1,138
Vietnam	699
Bangladesh	600
Pakistan	500
Ethiopia	450
Ghana	364
Tanzania	356
Nigeria	330
Uganda	328
Afghanistan	285

The IDA emphasises broad-based growth, including:

1. Sound economic policies, rural development, private business and sustainable environmental practices.
2. Investment in people, in education and health, especially in the struggle against HIV/AIDS, malaria and TB.
3. Expansion of borrower capacity to provide basic services and ensure accountability for public resources.
4. Recovery from civil strife, armed conflict and natural disaster.
5. Promotion of trade and regional integration.

The IDA carries out analytical studies to build a knowledge base that allows for the intelligent design of policies to reduce poverty. The IDA also advises governments on ways to broaden the base of its economic growth and to protect the poor from economic shocks.

The IDA also coordinates donor assistance to provide relief for poor countries that cannot manage their debt-service burden. The increasing integration of world markets and societies has allowed China, India and many other developing countries to achieve faster growth through expanded foreign direct investments (FDIs) and access to export markets. The IDA is re-invigorating its work in trade to assist the poorest and most marginalised countries to limit adverse disruptions from globalisation and to enhance net benefits from it. The IDA's work in this area emphasises measures to improve the investment climate, enhance regional integration, particularly in Africa, strengthen competitiveness, remove barriers to the markets of industrial countries and forge partnerships that enable the acquisition of appropriate skills and infrastructure.

International Finance Corporation (IFC)

The IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world. It helps governments in creating conditions for the flow of both domestic and foreign private savings and investments. It supports the role of market investors. It acts as a catalyst in the developing world to prove that investments can be made profitably.

Multilateral Investment Guarantee Agency (MIGA)

This agency helps foreign investments in developing countries by covering non-commercial risks like political risks, through insurance (guarantee). MIGA is a multilateral risk mitigating agency, promoting FDI into developing countries by:

1. Insuring investors against political or non-commercial risks.
2. Mediating disputes between investors and governments.
3. Advising governments on attracting investment.
4. Sharing information through online investment information services.

EXAMPLE: MIGA OFFSETS LENDERS' RISK CONCERNS IN VIETNAM POWER PROJECT

Along the bustling tree-lined streets of Ho Chi Minh City, merchants wearing traditional Vietnamese *ao dais* invite customers into brightly lit shops, and restaurant owners beckon passers-by into their air conditioned establishments. In homes on the outskirts of the city, refrigerators keep food cold and electric fans keep the populace cool.

As a member of the World Bank group, MIGA's mission is to promote FDI into developing countries to help support economic growth, reduce poverty and improve people's lives.

The development needs today are stark. Nearly 28 per cent of the world's population of 1.7 billion people lives on less than a dollar a day. Billions of people live without access to safe drinking water or sanitary living conditions. In some countries, children cannot attend school because there is no electricity to light the classrooms or no roads to get to school. The list goes on. Developing country governments cannot shoulder the burden, financially or technically, of addressing these needs by themselves. FDIs help these countries meet these requirements.

Foreign direct investors can play a critical role in reducing poverty by building roads, providing clean water, electricity and, above all, providing jobs. By taking on these tasks, the private sector can help economies grow. This helps governments use funds on addressing acute social needs. Foreign investors can take advantage of the opportunities to make profitable investments.

MIGA AND FDI

Concerns about investment environments and perceptions of political risk often inhibit foreign direct investment, with the majority of flows going to just a handful of countries and leaving the world's poorest economies largely ignored. MIGA addresses these concerns by providing three key services: political risk insurance for foreign investments in developing countries, technical assistance to improve investment climates and promote investment opportunities in developing countries, and dispute mediation services, to remove possible obstacles to future investment.

MIGA's operational strategy plays to our foremost strength in the marketplace—attracting investors and private insurers into difficult operating environments. The agency's strategy focuses on specific areas where we can make the greatest difference:

- Infrastructure development is an important priority for MIGA, given the estimated need for US$ 230 billion a year solely for new investment to deal with the rapidly growing urban centres and underserved rural populations in developing countries.
- Frontier markets—high-risk and/or low-income countries and markets—represent both a challenge and an opportunity for the agency. These markets typically have the most need and stand to benefit the most from foreign investment, but are not well served by the private market.
- Investment into conflict-affected countries is another operational priority for the agency. While these countries tend to attract considerable donor goodwill once conflict ends, aid flows eventually start to decline, making private investment critical for reconstruction and growth. With many investors wary of potential risks, political risk insurance becomes essential to moving investments forward.

- South–South investments (investments between developing countries) are contributing a greater proportion of FDI flows. But the private insurance market in these countries is not always sufficiently developed and national export credit agencies often lack the ability and capacity to offer political risk insurance.

MIGA offers comparative advantages in all of these areas—from our unique package of products and ability to restore the business community's confidence, to our ongoing collaboration with the public and private insurance market to increase the amount of insurance available to investors.

MIGA gives private investors the confidence and comfort they need to make sustainable investments in developing countries. As part of the World Bank Group, and having as our shareholders both host countries and investor countries, MIGA brings security and credibility to an investment that is unmatched. Our presence in a potential investment can literally transform a *no-go* into a *go*. We act as a potent deterrent against government actions that may adversely affect investments. And even if disputes do arise, our leverage with host governments frequently enables us to resolve differences to the mutual satisfaction of all parties.

MIGA is a leader when it comes to assessing and managing political risks, developing new products and services, and finding innovative ways to meet client needs. But we don't stop there. We also provide expert advice to help countries attract and retain quality foreign investment, and a host of online services to make sure investors know about business opportunities in our developing member countries.

MIGA can be the difference between a make or break, by providing that all-critical lynchpin that enables a complex transaction to go ahead. MIGA offers innovative coverage of the non-traditional sub-sovereign risks that often accompany water and other infrastructure projects. We can also cover interest rate hedging instruments, as we did for a power project in Vietnam, as well as provide capital markets guarantees, which we recently did for residential mortgage-backed securities in Latvia.

PRI market—MIGA complements the activities of other investment insurers and works with partners through its coinsurance and reinsurance programmes. By doing so, we are able to expand the capacity of the political risk insurance industry to insure investments, as well as to encourage private sector insurers into transactions they would not have otherwise undertaken.

Since its inception in 1988, MIGA has issued nearly 800 guarantees worth more than US$ 14.7 billion for projects in 91 developing countries. MIGA is committed to promoting socially, economically, and environmentally sustainable projects that are above all, developmentally responsible. They have widespread benefits, for example, generating jobs and taxes, and transferring skills and know-how. Local communities often receive significant secondary benefits through improved infrastructure. Projects encourage similar local investments and spur the growth of local businesses. We ensure that projects are aligned with World Bank Group country assistance strategies, and integrate the best environmental, social, and governance practices into our work.

MIGA specialises in facilitating investments in high-risk, low-income countries such as in Africa and conflict-affected areas, which account for 42 per cent of our portfolio. By partnering with the World Bank and others, MIGA is able to leverage finance for guarantee trust funds in these difficult or frontier markets. The agency also focuses on supporting complex infrastructure projects and promoting investments between developing countries.

MIGA's technical assistance services also play an integral role in catalysing FDI by helping developing countries define and implement strategies to promote investment. MIGA develops and deploys tools and technologies to support the spread of information on investment opportunities. Thousands of users take advantage of our suite of online investment information services, which complement country-based capacity-building work.

The agency uses its legal services to further smooth possible impediments to investment. Through its dispute mediation programme, MIGA helps governments and investors resolve their differences, and ultimately improve the country's investment climate.

MIGA OPERATIONS IN CHINA

MIGA has been very active in supporting FDI into China. The current MIGA portfolio in China consists of five contracts for a maximum liability of US$ 91 million (this does not include the Shenzhen water project, which was approved by the MIGA Board in FY 2005 with a maximum liability of US$ 45 million). There has been a recent resurgence in interest for MIGA coverage, particularly for projects that involve sub-sovereign risk like water. MIGA's strategy is to prioritise guarantees in sectors that are government priorities like infrastructure and water. Further, MIGA is eager to support new investments through both its guarantees and technical assistance programmes in line with China's western and northeast regional development strategy.

In support of China's 'go global' strategy, MIGA cosponsored a workshop in June 2005 with the Ministry of Finance, China Ex–Im Bank and the IFC, in collaboration with NDRC, Sinosure, China's state-owned Assets Supervision and Administration Commission, Ministry of Commerce, and Chubb Insurance. The workshop brought together some 200 participants, of which two-thirds were from Chinese companies and the remainder from relevant central and provincial governments and international organisations.

MIGA has plans to follow up the workshop in several ways. First, MIGA is collaborating with the Foreign Investment Advisory Services (FIAS) in investigations and analyses on outward investment from China. The study has three main parts:

1. Interviews and case studies on selected overseas investors.
2. A survey of 150 Chinese companies investing overseas or with an interest in investing overseas.
3. Preparation of a report summarising findings and presentation at a FY 2006 IFC seminar on South–South investment that will be convened in India. This work is in keeping with MIGA's established work programme in China as well as with MIGA's corporate strategy with regard to the promotion of South–South investment.

In addition, MIGA has recently signed a new memorandum of understanding (MOU) with the China Export and Credit Insurance Corporation (Sinosure). The purpose of the new MOU is to expand the cooperation between MIGA and Sinosure, particularly in the area of supporting Chinese outward investment by providing coinsurance and reinsurance for projects. Both parties have recognised the following key aspects for cooperation:

1. Development of better communications and information exchange between MIGA and Sinosure.
2. Organising training programmes in underwriting and reinsurance.
3. Development of joint efforts to reach out to Chinese companies wishing to invest abroad.
4. Staff exchanges focused on specific underwriting efforts.
5. Forming a technical team to review the issues of documentation harmonisation and the like.

MIGA has conducted a number of programmes to support the country's investment promotion and capacity-building activities. MIGA is collaborating with the IFC's China Project Development Facility

(CPDF) in undertaking a competitive benchmarking exercise of Sichuan Province at the request of the Sichuan Investment Promotion Bureau (SIPB). The survey covers firms in 10 municipalities engaged in food processing, electronics, machinery/machine building, chemicals, pharmaceuticals/traditional Chinese medicine and will contribute to the development of an integrated provincial investment promotion strategy. MIGA is also undertaking a series of investment promotion workshops with the CPDF. Two workshops were held in 2004 and a third will be held in November 2005 to present the benchmarking findings and discuss how to make use of them in strategic planning efforts at the provincial and municipal levels.

MIGA has begun to work with the World Bank's Beijing office to provide integrated support to the north-east provinces. Specifically, the Heilongjiang Investment Promotion Agency (HIPA), Harbin Economic Cooperation Promotion Bureau (HECPB) and the Harbin Development Zone (HDZ) requested that MIGA undertake a needs assessment of their agencies to identify their respective capacity-building requirements and as a step toward developing an integrated provincial investment. In late May 2005, a MIGA team visited Harbin to undertake the assessment. The needs assessment drew upon discussions with management and staff of these agencies, meetings with municipal and provincial officials and interviews with foreign investors. MIGA is also considering benchmarking key industries in Heilongjiang Province against other provinces.

INFORMATION SERVICES

MIGA signed a cooperation agreement in March 2004 with the SIPB's Information Resource Centre, which is providing investment information content to MIGA for distribution to potential investors via the FDI Xchange. Other online services partners in China include the Dongguan Foreign Investment Promotion Centre (DGFIPC), China Foreign Direct Investment (China FDI) and the Hong Kong and Shanghai Banking Corporation (HSBC). MIGA's online investment promotion services (www.fdixchange.com and www.ipanet.net) feature 380 documents on investment opportunities and the related business, legal and regulatory environment in China. Some 336 China-based individuals and organisations are members of *IPAnet*.

International Centre for Settlement of Investment Disputes (ICSID)

This agency provides for dispute settlements through conciliation or arbitration between private foreign investors and the government of the host country. On a number of occasions in the past, the World Bank as an institution and the president of the Bank in his personal capacity have assisted in mediation or conciliation of investment disputes between governments and private foreign investors. The creation of the International Centre for Settlement of Investment Disputes (ICSID) in 1966 was in part intended to relieve the president of the Bank and the staff of the burden of becoming involved in such disputes. But the Bank's overriding consideration in creating the ICSID was the belief that an institution specially designed to facilitate the settlement of investment disputes between governments and foreign investors could help to promote increased flows of international investment.

The ICSID was established under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (hereafter referred to as the Convention) which came into force on 14 October 1966. The ICSID has an administrative council and a secretariat. The administrative council is chaired by the World Bank's president and consists of one representative of each state which has ratified the Convention. Annual meetings of the council are held in conjunction with the joint Bank/Fund annual meetings.

The ICSID is an autonomous international organisation. However, it has close links with the World Bank. All of ICSID's members are also members of the Bank. Unless a government makes a contrary designation, its Governor for the Bank sits ex officio on ICSID's administrative council. The expenses of the ICSID secretariat are financed out of the Bank's budget, although the costs of individual proceedings are borne by the parties involved.

Pursuant to the Convention, the ICSID provides facilities for the conciliation and arbitration of disputes between member countries and investors who qualify as nationals of other member countries. Recourse to the ICSID's conciliation and arbitration process is entirely voluntary. However, once the parties have consented to arbitration under the ICSID Convention, neither can unilaterally withdraw its consent. Moreover, all ICSID contracting states, whether or not parties to the dispute, are required by the Convention to recognise and enforce the ICSID arbitral awards.

Besides providing facilities for conciliation and arbitration under the ICSID Convention, it has since 1978 had a set of additional facility rules authorising the ICSID secretariat to administer certain types of proceedings between states and foreign nationals which fall outside the scope of the Convention. These include conciliation and arbitration proceedings where either the state party or the home state of the foreign national is not a member of ICSID. Additional facility conciliation and arbitration are also available for cases where the dispute is not an investment dispute provided it relates to a transaction which has features that distinguishes it from an ordinary commercial transaction. The additional facility rules further allow the ICSID to administer a type of proceedings not provided for in the Convention, namely, fact-finding proceedings to which any state and foreign national may have recourse if they wish to institute an inquiry to examine and report on facts.

A third activity of the ICSID in the field of settlement of disputes has consisted in the secretary-general of the ICSID accepting to act as the appointing authority of arbitrators for ad hoc (that is, non-institutional) arbitration proceedings. This is most commonly done in the context of arrangements for arbitration under the arbitration rules of the United Nations Commission on International Trade Law (UNCITRAL), which are specially designed for ad hoc proceedings.

Provisions on ICSID arbitration are commonly found in investment contracts between governments of member countries and investors from other member countries. Advance consents by governments to submit investment disputes to ICSID arbitration can also be found in about 20 investment laws and in over 900 bilateral investment treaties. Arbitration under the auspices of the ICSID is similarly one of the main mechanisms for the settlement of investment disputes under four recent multilateral trade and investment treaties (the North American Free Trade Agreement, the Energy Charter Treaty, the Cartagena Free Trade Agreement and the Colonia Investment Protocol of Mercosur).

Under the ICSID Convention, ICSID proceedings need not be held at its headquarters in Washington, DC. The parties to an ICSID proceeding are free to agree to conduct their proceeding at any other place. The ICSID Convention contains provisions that facilitate advance stipulations for such other venues when the place chosen is the seat of an institution with which the Centre has an arrangement for this purpose. The ICSID has to date entered into such arrangements with the Permanent Court of Arbitration at The Hague, the regional arbitration centres of the Asian-African Legal Consultative Committee at Cairo and Kuala Lumpur, the Australian Centre for International Commercial Arbitration at Melbourne, the Australian Commercial Disputes Centre at Sydney, the Singapore International Arbitration Centre, the GCC Commercial Arbitration Centre at Bahrain and the German Institution of Arbitration (DIS). These arrangements have proved their usefulness in many ICSID cases and have helped to promote cooperation between ICSID and these institutions in several other respects.

The number of cases submitted to the Centre has increased significantly in recent years. These include cases brought under the ICSID Convention and cases brought under the ICSID's additional facility rules. In addition to its dispute settlement activities, the ICSID carries out advisory and research activities relevant to its objectives and has a number of publications. The Centre collaborates with other World Bank Group units in meeting requests by governments for advice on investment and arbitration law. The publications of the Centre include multi-volume collections of investment laws of the world and of investment treaties, which are periodically updated by the ICSID staff. Since April 1986, the Centre has published a semi-annual law journal entitled *ICSID Review-Foreign Investment Law Journal*. The journal was recently rated as one of the top 20 international and comparative law journals in the US.

Since 1983, the Centre has also cosponsored, with the American Arbitration Association (AAA), the International Chamber of Commerce (ICC) and the International Court of Arbitration, colloquia on topics of current interest in the area of international arbitration. Other conference activities involving the Centre are described in the *ICSID Annual Report*.

ICSID has an Administrative Council, chaired by the World Bank's President, and a Secretariat. It provides facilities for the conciliation and arbitration of investment disputes between member countries and individual investors.

During the past decade, with the proliferation of bilateral investment treaties (BITs), most of which refer present and future investment disputes to the ICSID, the caseload of the ICSID has substantially increased. As of 30 June 2005, the ICSID had registered 184 cases more than 30 of which were pending against Argentina. Argentina's economic crisis and subsequent Argentine government measures led several foreign investors to file cases against Argentina.

INTERNATIONAL MONETARY FUND (IMF)

The IMF is an international organisation of 184 member countries. It was created under the patronage of the UNO. It is a body that regulates smooth compensation for balance of payment deficits. Special Drawing Rights (SDRs) are assets allotted by the IMF on the basis of a country's gross domestic product (GDP) and share of world trade.

The IMF was established to promote international monetary cooperation, exchange stability and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment.

The IMF is meant to do the following:

1. Assist in international monitory transactions and cooperation.
2. Promote exchange rate stability and proper exchange arrangements.
3. Help in establishment of multilateral payment systems and elimination of foreign exchange restrictions.
4. Provide bridge loans for meeting temporary adjustments of balance of payments.
5. Offer concessional aid to low-income member countries.
6. The IMF works to promote global growth and economic stability and thereby prevent economic crisis by encouraging countries to adopt sound economic policies.

7. Technical assistance and training are offered—mostly free of charge—to help member countries strengthen their capacity to design and implement effective policies. Technical assistance is offered in several areas including fiscal policy, monetary and exchange rate policies, banking and financial system supervision and regulation, and statistics.
8. In the event that member countries do experience difficulties financing their balance of payments, the IMF is also a fund that can be tapped to help in recovery.

Figure 3.1 Growth in IMF Membership, 1945–2003

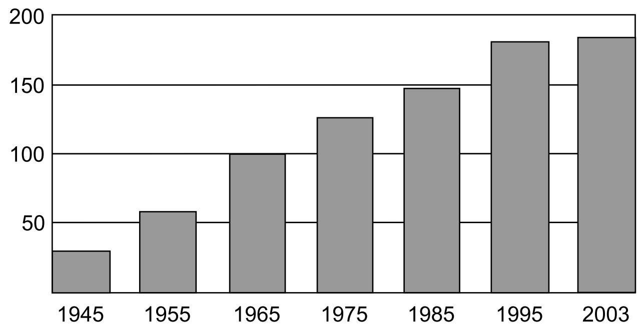


Figure 3.1 above clearly shows the rise in the membership of different nations since 1945 to year 2003 starting from 50 member nations to a high of 200 member nations.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD)

Established in 1964, UNCTAD promotes the development-friendly integration of developing countries into the world economy. It has progressively evolved into an authoritative knowledge-based institution whose work aims to help shape current policy debates and thinking on development, with a particular focus on ensuring that domestic policies and international action are mutually supportive in bringing about sustainable development.

The organisation works to fulfil the following three key functions:

1. It functions as a forum for intergovernmental deliberations, supported by discussions with experts and exchanges of experience aimed at consensus building.
2. It undertakes research, policy analysis and data collection for the debates of government representatives and experts.
3. It provides technical assistance tailored to the specific requirements of developing countries, with special attention to the needs of the least developed countries and of economies in transition. When appropriate, UNCTAD cooperates with other organisations and donor countries in the delivery of technical assistance.

Besides this, UNCTAD also undertakes the following tasks:

1. It scans the global economy and its impact on the development process.
2. It analyses the macroeconomic policies of governments regarding cooperation between nations.
3. It understands the development challenges and successful experiences and dovetails them to developing countries and countries going into market economy.
4. Assist developing countries in their debt repayments.
5. Prepares a database and provides trade and development-related information.
6. Helps poor nations to integrate with the global economy.

UNCTAD interacts and cooperates with a variety of other organisations within and outside the UN system. These include the following:

1. The WTO
   The WTO and UNCTAD have joined forces to ensure a better functioning of the multilateral trading system. In April 2003, the organisations signed an MOU providing for cooperation and consultations on their technical assistance activities and for the conduct of joint studies on selected issues. These agencies interact frequently and the intergovernmental processes in both organisations are often attended by the same government representatives.
2. The International Trade Centre (ITC)
   The ITC is jointly sponsored by UNCTAD and WTO for operational, enterprise-oriented aspects of trade development, with an emphasis on trade promotion. In contrast to UNCTAD, whose technical assistance is primarily tailored to governments, ITC's technical assistance focuses on assisting businesses in developing countries. Both UNCTAD and WTO are represented in the joint advisory group supervising ITC's work and UNCTAD has a number of joint technical assistance activities with ITC.
3. The UN Regional Commissions and UNDP
   UNCTAD cooperates with these international entities on a project-by-project basis, be it in relation to research projects, joint workshops and seminars, or technical assistance. Since UNCTAD has no representatives in the field, the UNDP country offices are also used to support UNCTAD activities in various countries.

INTERNATIONAL TRADE CENTRE

Since 1964, the ITC has helped the business sectors of developing and transition economies to develop exports. The goal of ITC is to help developing countries to achieve sustainable human development through exports, with an emphasis on competitiveness. They are known as a practical agency that has embraced reform, encourages partnerships and fosters innovation.

It shares the social development goals of the UN, the WTO, the Bretton Woods institutions (the World Bank and the IMF) and, more generally, of the international development community. It contributes to the UN's millennium development goals, specifically to the goals relating to fostering global partnership for development, reducing poverty, promoting gender equality and ensuring environmental sustainability.

It is the technical cooperation agency of UNCTAD/WTO for operational and enterprise oriented aspects of international trade development. It works with developing nations and nations with economies in transition to set up trade promotion plans to expand exports and improve their import operations.

ITC's Goals

1. Facilitate the integration of developing and transition economy firms into the multilateral trading system.
2. Support national efforts to design and implement trade development strategies.
3. Strengthen key trade support services, both public and private.
4. Improve export performance in sectors of critical importance and opportunity.
5. Foster international competitiveness within the business community as a whole and among small and medium-sized firms in particular.

Some of ITC's technical programmes include:

1. Strategic and operational market research.
2. Business advisory services.
3. Trade information management.
4. Export training capacity development.
5. Sector-specific product and market development.
6. Trade in services.
7. International purchasing and supply chain management.

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO)

United Nations Industrial Development Organization (UNIDO) is the UN's specialised industrial agency, mandated to promote industrial development and international industrial cooperation.

This agency addresses poverty reduction by focusing on enabling the poor to earn a living, rather than providing help to deal with the symptoms of poverty. As such UNIDO focuses on private sector development and agro-industrial development, including rural energy for productive use, by supporting the development of clusters, rural development and women entrepreneurs, improving business environment and institutional support and strengthening business information services.

Further, UNIDO offers programmes to support market access and access to finance while providing assistance to allow for small and medium enterprises to face global competition.

Second, UNIDO helps enterprises to build up technical infrastructure required to participate in international trade and strengthens key export sectors that require support services in upgrading the productive and export capacities. The programme draws on UNIDO's technical expertise and on its strong linkages with external partners as well as on inter-organisational cooperation with bodies such as the EU, WTO, UNCTAD, ITC and ISO.

Hence, UNIDO helps to improve the living conditions of people and promotes global prosperity by offering tailor-made solutions for industrial development. It associates with governments and private industry to develop industrial capacities.

MARKET GLOBALISATION

Firms usually start marketing their products in their own country, that is, in the domestic market. Once established as a known brand and an accepted supplier of goods, they need to diversify their markets and the first step in that direction is exports to another country. Excess production, which cannot find market in the country of origin, is the starting point of exports. Later on, firms do take up special production of goods for exports. Some others build an export bank (inventory) to avoid any clash with the demands of the domestic market. Firms have to realise that the product, which is regarded to be giving value for money and fulfilling the customer's need at home, must do the same in the overseas market.

Once a firm has decided to get established in the export market, it has to understand the business environment of the foreign country. The 4Ps—product, price, placement and promotion—may not have the same relevance outside the home country.

City-states initially traded through the barter system. City-states traded products that they had with the product that they needed with other city-states. The same kind of trade takes place even today although the scene is much more complex now with several countries and myriads of products having global access.

In India, exports are a firm's imperatives due to following reasons:

1. The partial convertibility of the rupee, which gives the foreign exchange needed to exporters for their imports for production.
2. Need to achieve economies of scale of production for lowering costs and making prices competitive for exports too.
3. With multinational corporations (MNCs) getting a foothold in India, firms need to have greater markets, which India cannot provide.
4. The intangible benefits are the improvement of product quality, improvements in communication systems.
5. Upgradation of technology.
6. Cost reduction due to large scale of manufacture.
7. Utilisation of human resources like in the IT sector, where India has a large workforce.
8. Internationalisation of Indian brands.

Let us discuss the negative factors of going for exports:

1. Low image of the country as a supplier of quality goods. This is gradually changing.
2. Firm's culture, which does not give the required fillip to exports.
3. Lack of experience in international business and the fear of the unknown.
4. Cultural differences between nations.
5. Entry barriers in some countries, governmental controls and in some cases, like the US, the existence of quota systems for exports.

There are some common factors as discussed next:

1. Balance of payment between trading nations.
2. Stability of their currency.
3. Transportation costs.
4. Infrastructure status.
5. Quality control plans in each country and how these manifest in international trade.
6. Trading blocks like the EU, NAFTA and ASEAN.
7. The WTO, which regulates international trade and settles trade disputes between nations.
8. Political instability in some regions.
9. Economic upheavals of the Far East, Japan.

Cultural Aspects of Global Business

Every country has its own cultural and social ethos that governs, more than the country's government, the way the populace of the country would behave in a given circumstance. These factors determine the norms of behaviour besides settings standards of *do's* and *don'ts* for a community. In large countries like India, there is a great cultural divide across the country. However, even amidst the diversity, the basic unity can be seen. In smaller countries, the cultural, moral and social scenario remains the same but for minor changes. International marketers need to understand these nuances of the cultural spread in the context of the host country. Companies need to know the factors that determine product usage, the management process and communication system. However, it must be understood that decent behaviour, politeness and good communication adds to the marketing effect everywhere. Most foreign companies use local managers in order to fully assimilate the cultural ambience of the host country and to fully use it to their benefit. See how Pepsi and Coke use the Indian festivals to boost their sales through seasonal promotions.

Culture is a set of values and beliefs that have been handed down through generations and therefore can be considered to be an acquired entity rather than an inborn commitment. Companies should try to understand the value system but not try to change it. International players do have an impact on the cultural milieu of the countries as they bring in their own culture that is practised by their expatriate managers. Culture gives pride to the population, gives rise to prejudices and these create needs of products. Culture determines people's attitude towards work, leisure time activities, success and achievement, need for change and time management. A good market would locate business opportunities through the cultural spectrum. For example, if people have more leisure time, then sports goods, leisure time activity equipment, holiday packages will sell well.

It is widely believed that culture is not inherent but is learnt. Different areas of culture are interrelated and shared culture distinguishes people in one area from another. Culture guides people to respond to situations and since it has been learnt, it is difficult to change. Marketeers need to find some common reference point between cultures of different countries, because it is the culture of a country that defines the behaviour norms and reactions to outside stimuli of its people.

The home country objectives of business are dependent on its cultural ethos and transposing them on to another country would need defining the cultural ethos of that country. If the marketers try to impose their country's culture on another country, it may complicate the issue and hence the cultural biases of one's own country must be taken out while formulating objectives of business for other countries. There may be, however, products that have universal appeal and they would not need any such action.

Product Innovation

While a product may be introduced as an innovative one in one country, it may already be in a stage of maturity in some other country. Product acceptance in new countries takes the following steps:

1. Product knowledge or awareness, which comes from advertising.
2. Interest in the product makes prospective customers obtain more information about the product.
3. Judgement about the value of the product is made at this stage.
4. The next step is the trial stage when the customer tries out the product before adopting it.

The rate of adoption of a product depends on the following considerations:

1. Competitive advantage of the product and also the competitive advantage of its country of origin like low-cost labour, balance of payment situation and currency rates.
2. Acceptance of change. Some countries like the US need to change their products all the time, while countries like Japan and India prefer to stay with tried and trusted products unless something of great interest comes along.
3. Ease of usage of the product and its compatibility with other products in use.
4. Ease of trial helps in ensuring product usage.
5. Availability of information when needed is vital for customer trying to make a change.

Major difference in culture can be seen in the culture of the USA and Japan. While the USA has individualistic management style, Japan's management is based on group decisions.

International marketers must take the cultural factors into account to succeed in their business.

International Market Research

Companies are, at the beginning, unaware of the behaviour of the international markets. While they have a gut feeling about the domestic market and know its trends to a large extent, to most firms, the international market initially seems like a black box. Companies must reduce the risk of market uncertainties by organising proper market research in countries they want to do business in. Questions like whether proper distribution networks can be established in the host country or what type of pricing the customers in the host country would accept baffle international marketeers and research helps in reducing these uncertainties. However, there are always constraints of time and money for organising these researches. Hence, an 'on the spot' enquiry is of great help if conducted by trained researchers.

The secondary data available for different countries are not compatible and its comparison can pose problems. Consumer expenditure in Germany is taken from turnover receipts and in the US, household surveys and production sources also add to the information base. International market research has to take multiple countries into account and consider each country's unique market situation. In low-profit markets, major research could prove expensive. In many underdeveloped countries, data availability is scarce and not reliable.

Companies find that comparing data is fraught with problems because of the different ways the data has been collected, the time it was collected and the problems that arise out of the distortions in currency conversion rates over a period of time. There could be a major difference in the purpose for which the data was collected and the expected accuracy levels. The data must be analysed for its timeliness, accuracy, completeness and the methodology used for collecting the same.

For international market research, the following questions need to be asked:

1. Ask yourself, what information do I need?
2. Where can I get it—files, library or database?
3. Why do I need the information?
4. When do I need it?
5. What is the money value of the information to me?
6. What would be the cost of ignorance?

Some countries have specialised research agencies like ORG Marg in India that collects specified data and information that they sell to buyers interested in the data. This data could be about specific markets, regions, products or about several of these items. Studies that provide information about imports and exports from countries are usually available from the governments of those countries. Trade organisations like the Federation of Indian Chambers of Commerce and Industry (FICCI), The Associated Chambers of Commerce and Industry of India (ASSOCHAM) and the Confederation of Indian Industries (CII) in India and such others worldwide publish a lot of data relevant to their country's commerce and trade, both internal and international. Government agencies like the Directorate of Advertising & Visual Publicity (DAVP) in India bring out yearly almanacs and other literature with data and facts about the country's commerce. Export promotion boards are other sources of information needed by international marketeers. International organisations like the WTO, IMF and the World Bank have large research units in each country that gather trade-related information. Several countries have active governmental support for international marketers and their government arranges for the required data to be made available to international marketers.

The latest and the most important of data bases are now available at the click of the mouse through the internet. Information on the internet is usually available on a real-time basis as it is updated online. Google and other websites offer a huge amount of information online.

Multinational corporations also arrange market research in the different countries where they intend to explore the market. The travelling executives of these companies are supposed to be the eyes and ears of the company. They watch the markets, collect information that is then analysed, classified and stored in the databank for use. Field research conducted in the international market needs a thorough knowledge of the country, its culture, economic standards for the research to be of real value. For example, competition in shoes in some countries could come from the local town cobblers rather than from any known brand. In Kolkata, for example, there are a number of excellent Chinese cobblers who operate from small shops. They compete with the big brands and they are successful due to their special talent in craftsmanship and in designing shoes for the wearer's comfort.

The databases of the MNCs cover a wide variety of subjects, different markets, products and knowledge of competition that becomes useful once the company decides to enter a particular country's market for its products.

Once the company has acquired the relevant market information it has to understand the opportunities and risks involved in doing business in that country. A low-risk country with high opportunities should be the target in the first instance. As the company gathers experience in the field of international marketing, it can plan entry into medium-risk countries that offer the next best opportunities.

Companies need to start with secondary research by using libraries, online databases, trade associations and government publications. They need to gather information from foreign embassies about their countries of interest. They need to cross-check every piece of information from several sources.

Survey research is conducted by using a questionnaire and putting questions to potential customers. The questionnaires should be simple, easy to be answered and recorded. The questions should be clear and to the point.

A company planning to get into the international market needs to analyse the countries it wants to select after research and then place these countries in a matrix as shown in Table 3.2.

Table 3.2 Rating Countries for Business Potential

Investment in marketing	*Country A*	*Country B*	*Country C*	*Country D*
Transport costs	–	–	–	–
Taxation rates	–	–	–	–
Market size	–	–	–	–
Market size after 5 years	–	–	–	–
Current/possible market share	–	–	–	–
Market share after 5 years	–	–	–	–
Market loss due to expected competition in the next 5 years	–	–	–	–
Currency rate problems	–	–	–	–
Political risks	–	–	–	–
Business laws of the country	–	–	–	–
Possible future laws	–	–	–	–

Note: The countries should be rated on a scale of 1–5.

The matrix would bring out the best option(s) the company has for entering international markets.

Next, the company can build a matrix describing the country's attractiveness as a market and its competitive strengths as shown in Table 3.3.

Table 3.3 Business Attractiveness and Competitive Strength

Country's attractiveness/ competitive strength of company	*Low*	*Medium*	*High*
High	Invest to grow	Make country specific strategy	Dominate the market
Medium	Make country specific strategy	Make country specific strategy	Dominate
Low	Harvest/divest	Dominate and divest at the right time	Dominate but be ready to leaver leadership when required

Companies have to plan their initial operations in countries appearing in the top left corner of the matrix. Once a company has established itself in one country, it has to select from the following two options to increase its business:

1. Consolidate its market in the host country with intensive marketing plans.
2. Diversify in other countries that have similar markets and business environments.

When a company plans international marketing and it has no experience, it would not be able to find the most appropriate strategies for gaining market share there. It would perhaps react to the opportunities available and in this way may gain competitive advantage. However, with experience the company would proactively plan on countries which would give it the best results. In the beginning the companies appoint local channels to market their products. As the sales grow they increase their investments in marketing with heavy inputs in advertising, promotion and sales training.

It must be understood that rarely do companies have enough resources to take steps regarding all the opportunities that come their way. The major considerations they have are regarding the size of the market, its growth potential and competitive strengths. The geographic location of the markets and their distance from the manufacturing base are important considerations in the selection of countries. Companies need to scan the markets carefully so that they do not miss out on good prospective areas. Scanning can help in ranking and prioritising the countries on the basis of their relative importance for the company.

Companies must accept and try to exploit their specific core competencies and competitive strengths that are relevant to their geographic expansion. However, the more important areas to be looked into are the following:

1. Relative market potential in different countries under purview.
2. Availability and cost of human resources, information and financial resources in the countries.
3. Relative risk factors attached with the countries.
4. The accuracy of the data available on the countries and how recent the information is. Companies must understand the different terminologies used in different countries, their data collection methods and base years of the data.
5. The data is usually available from international consultancy firms, government publications and their cost and usefulness vary for each country.
6. Companies can use the diversification method of spreading into several countries with a low-level of commitment or they can go to only one country and do intensive marketing there. The decision to concentrate or diversify would depend on the growth rate, sales stability in the countries, competitive strengths, product needs and the acceptance levels of the products in the markets.
7. In most countries, companies need to develop local talents, marketing plans and policies, distribution and communication strategies.

Market research should give the following information:

1. Demand analysis is dependent on a country's gross national product and per capita income. The demands of low-income countries are more on core products like food and clothing. In high-income countries, the demand is for heavy industries.
2. Income elasticity of demand can be found out both for consumer and industrial products. Basic necessities do not have much of income elasticity, while the demand for luxuries changes with change in income.

The entry barriers to countries are listed next and these determine whether or not a market is conducive for entry:

1. Government regulations regarding foreign firms.
2. Low infrastructure like telephones, power, roads, railways and ports.
3. Poor availability of raw materials.
4. High cost of money, high borrowing rates.
5. High rate of import duties.

Products for the International Market

It cannot be assumed that a product that has done well in the home market will also do well in the international market. According to Maslow's hierarchy of needs, products are meant to satisfy human needs like those of safety, social acceptance, esteem and self-actualisation and psychological needs. A car is not just a car. Besides being a means of transportation, it is also a reflection of a person's lifestyle.

Local products are meant just for one country. There may be a big demand for them in the home country. The American telecom giant, AT&T, confined its business to the US market till the last quarter of the twentieth century, as the market was large enough for its products. Sometimes product specifications differ. For example, the voltage requirements for electrical goods may differ across countries.

The following are the reasons for going overseas:

1. Firms can utilise their local expertise in the global context and thus improve on it.
2. Firms can use their experience of one market to further their efforts in other markets.
3. They can make better use of managerial expertise.

International Products

International products have the potential of being sold in a number of markets. Industrial products are less dependent on the environment and can be exported with greater ease than consumer products. For consumer products, product modifications may be needed and these modifications need to be cost effective. For example, large milk bottles were not successful in Japan where in small homes people have small refrigerators, which could not accommodate the large bottles.

Global products are made with the global market in mind. The Mercedes car is the same everywhere. Sony's Walkman is another example. The high cost of product development needs to be amortised over as large a volume as the global market can provide.

Global Products

While global products are marketed the same way around the world, some of the Ps like promotion or placement may need to be changed. Advertising campaigns must be translated in the local language and at times, this is difficult as the subtle nuances of any language are not easily translatable. The global product/brand must be guided by the same strategic plans and principles. Coke and Pepsi are two examples of global brands. Even then, their tastes differ across regions. For example, sweeter colas are preferred in the east while this is not so in the west. Thus, the products are differentiated accordingly.

The following are the pricing considerations for export markets:

1. Price-quality parity.
2. Price competitiveness.
3. Penetrating or skimming pricing or any other consideration.
4. Trade discounts, cash discounts and volume discounts that need to be offered in any overseas market.
5. Whether segment price differential is required or not.
6. Price elasticity of demand in the overseas market.
7. Overseas governments' pricing regulations if any.
8. Any anti-dumping laws.
9. International transportation costs.
10. International currency fluctuations.
11. Government tax laws.

International pricing strategy takes costs and competitive pricing into account. In case the demand of the product is not price elastic, it may be worthwhile to keep high prices. The total of fixed and variable costs tend to go up with the addition of the product adoption costs. Marketing costs could well be much higher as compared to domestic marketing costs. It is best to select a price with highest margins after taking the expenses on channel members and marketing into account.

Introductory pricing is done on cost-plus basis or by taking only variable cost into consideration with only an element of fixed cost. However, if the market is in the growth stage of PLC, a higher price can be fixed. The IMF was created under the auspices of the UNO. It is a body that regulates smooth to compensate for balance of payment deficits. SDRs are assets allotted by the IMF on the basis of country's GDP and share of world trade.

INTERNATIONAL MARKETING MANAGERS

Marketing managers have to perform very similar functions in home and host countries, except that in the host country, the business environment differs to a large extent and the managers must be vigilant in coping with the changing business scenario in an alien land.

Managers have to learn about the host country's consumers' tastes, buying patterns, income diversity and demand patterns, which could be fast changing due to technology changes and changes in income levels. Therefore, historical data could be misleading.

Managers have to ensure that a product fits with the consumers, which could entail product or package modifications. (Japanese homes have small refrigerators in which the standard 200 ml Coke bottle does not fit.) Managers have to relate to the stage of product life cycle and direct the firm's resources for the right products. This is important as a product could be in a maturity stage in one country and be in a growth stage in another.

Advertising, publicity, promotion plans all must be country specific, unless a product like the Mercedes car is being sold, which is a world accepted product and can sell on global advertising plans.

International Marketing Game 3.1

The teams should scan the competitive business environment for the chosen product in the selected country using Porter's Five Force Model. Michael Porter's Five Force Model is very useful in understanding the competitive environment. In the good old days, competition meant only the players in the field. The Five Force Model makes a comprehensive statement on what constitutes competition (see Figure 3.2).

Figure 3.2 Michael Porter's Five Force Model

	Threat of new entrants	
Bargaining power of suppliers	Rivalry among existing players	Bargaining power of buyers
	Threat of substitute products	

New Entrants

New Entrants pose a disguised threat as their entry time and manner is not known till the very last moment. Each business area has some entry barriers and exit barriers. If the entry barrier is high and the exit barrier low then it is the best place to be in because new firms will not enter and low-performing firms will quit instead of trying to undersell and make everyone lose profits. The following are entry barriers:

1. Government regulations like licenses
2. High project costs
3. Difficulty in obtaining technology
4. Market in maturity or decline stage
5. Paucity of raw materials
6. Non-availability of channel members

More players in the field mean excess production capacity and lower profit margins for the players.

(*continued*)

Substitutes Products

They need to be watched carefully as with innovation and new technology, they can pose a major threat. Home interior walls can be covered with lime wash (*chuna*), emulsion paints, wallpaper or wood panels. Each has its own pricing formula, plus and minus points.

Suppliers

Suppliers to the firm play a key role in product costs. If the buyers are few and suppliers several, then buyers will enjoy the power to bargain. In case there are only a handful of suppliers and several buyers, suppliers hold the advantage.

Buyers

Buyers of the firm are always the most important part in the game of marketing. With large number of buyers and few suppliers, the buyers can be at the supplier's mercy. The teams need to analyse competition in their chosen market. They need to assess whether they are strong, large in number and aggressive, or the firm can lead the pack of competitors. How to locate the competitors is a vital question for firms. Pepsi knows that Coke is its biggest competitor and yet they cannot neglect minor competitors. In the area of television (TV) manufacturers in India, Sony, Samsung and Philips, are known competitors and yet there are several small assemblers in each major centre and they account for nearly 25 per cent of the total sale of TVs. The same thing is true for many industries including the computer industry. For this purpose, firms should arrange regular feedback from its marketing or field sales force, so that the real picture of competition, its business terms and prices can be known. Otherwise, the firm is fighting a battle with ghosts.

QUESTIONS FOR DISCUSSION

1. What are the legal issues faced by companies in international marketing? What is WTOs' role in international marketing?
2. What are the reasons behind the lowering of entry barriers in most countries?
3. What is the effect of competition on international marketing?
4. What is the difference in the international marketing for small and large businesses?
5. What is the role of social sciences in international marketing?

4 International Trading

'The vacuum in the market is created by outside forces. It is the wise marketer who takes advantage of the vacuum before the others join in and spoil the show'.

AIMS AND OUTCOMES OF THE CHAPTER

One of the most important aspects of international marketing is international trading and successful companies organise their international operations around their international trade. This chapter covers the topic comprehensively and students will get a complete picture of international trade especially from the exporter's perspective.

There are several trade theories prevalent in the international markets. These have evolved since the eighteenth century. The international market demand for products and product life cycle differ from country to country because of their economic standards, their psychographic attitudes and, in some cases, their climatic conditions.

Companies need to have a strong brand image of their product before it starts selling in the host country. Image building should start as discussed next:

1. Image of the country as a supplier of good useful products.
2. Image of the company trying international marketing as a supplier of good 'value for money products'.
3. Brand image of the product.
4. Companies need to work on these issues in close coordination with the government, other companies and trading organisations.
5. Companies need to learn how trade theories affect international marketing.
6. Countries should get over the belief prevalent from the sixteenth to eighteenth century that only a country's government can become an exporter and not individual companies.
7. Companies have to realise that today it is the economies of scale and experience curve with newer technologies bringing in the cost leadership, besides product differentiation that gives them a competitive advantage. Companies need to have their hand on the market pulse to be able to supply the product immediately even when the need is only dormant.
8. The theory of comparative advantage, rather than absolute advantage, works for companies if they can accurately determine the levels of such advantage.
9. Companies have to realise the importance and effect of tariff and non-tariff barriers in different countries and should take advantage of these barriers.
10. Companies have to understand the 'balance of payment' and 'balance of trade' between countries for getting the best out of these situations.
11. Several countries, including India, give different incentives for international marketers maintaining a certain level of current account, capital account and reserves.
12. Companies must understand commodity, bilateral and multilateral agreements.
13. The employment factor in the host country, revenue and transfer of dividends in foreign currency along with fluctuations in consumption usually govern the host country's government's policies on international trade.
14. Companies need to learn about import quota restrictions especially in the garment trade.

RECENT TRENDS AND DEVELOPMENTS IN WORLD TRADE

The world economy expanded by 3.3 per cent in 2005, less rapidly than in 2004, but still slightly faster than the decade's average. Economic growth remained strong in most regions although less buoyant than in the preceding year. Only Europe's economy continued to record low gross domestic product (GDP) growth—less than half the rate observed in North America. In contrast to Europe, Japan experienced a strengthening of economic activity. In light of slower economic growth worldwide in 2005 and of oil market developments, merchandise trade growth—like GDP growth—decelerated in real terms, but still exceeded the average for the last decade.

For Indian business, international business has become an imperative because of the sudden influx of international competition with the entry of several multinational corporations (MNCs). This has further strengthened due to convertibility of Rupee on trade account. International trade between two countries is dependent on the balance of payment situation between countries. The balance occurs due to the following reasons:

1. On current account because of merchandise exports, service trade, gifts on a personal level and government aid transactions between two countries.
2. On capital account due to direct investments in equity of firms in another country at more than 20 per cent of the total equity, portfolio investment in firms' equity with less than 20 per cent shares and other long- and short-term capital flow.

The trade deceleration was most pronounced in the developed, oil-importing regions in this decade. Most of the developing regions and the Commonwealth of Independent States (CIS) recorded real import growth rates above the global average and in excess of their export growth. Oil price increases are a significant part of the explanation for this performance in many of the concerned countries. A sharp increase in crude oil prices pushed up energy costs worldwide but did not trigger a marked rise in consumer prices. Several factors contributed to this outcome:

1. First, many developed countries today have a lower oil intensity of output than three decades ago as the service sector accounts for a larger part of the GDP.
2. Second, the slack in production capacity combined with moderate wage increases in many developed regions lowered the possibility of passing on higher energy costs to consumers.
3. Core consumer price inflation, that is, all items excluding energy and food decreased in the Euro Area and the United States and stagnated in Japan in 2005.

Despite an acceleration in global economic activity and trade, the annual average change in world output and trade were lower than in the preceding year although they were higher that the decade's average. The world economic output of goods and services is estimated to have expanded by 3.3 per cent and real merchandise exports rose by 6 per cent in 2005 (see Table 4.1). The year-to-year deceleration of global economic output and trade was rather close to the predictions made in early 2005.

Table 4.1 World Trade and Output Developments, 2002–2005 (At Constant Prices, Annual Percentage Change)

	2002	*2003*	*2004*	*2005*
Merchandise exports	3.5	5.0	9.5	6.0
Merchandise production	0.8	3.5	4.0	–
GDP at market exchange rates	1.7	2.6	4.0	3.1
GDP at PPP	3.0	4.0	5.1	4.3

Source: WTO, IMF, World Economic Outlook.

A regional breakdown of the world economy reveals that the sluggishness of the European economy constituted a major drag on world trade and output growth as Europe continued to report the weakest trade and output expansion of all regions. The four largest economies in Europe (Germany, France, United Kingdom and Italy) all recorded GDP growth below 2 per cent, while the new members of the European Union (EU) continued to grow faster than the old members, with a combined GDP growth up by 4 per cent in 2005. North America's GDP growth of 3.4 per cent continued to slightly exceed global economic growth. Within the region, US economy recorded the strongest growth.

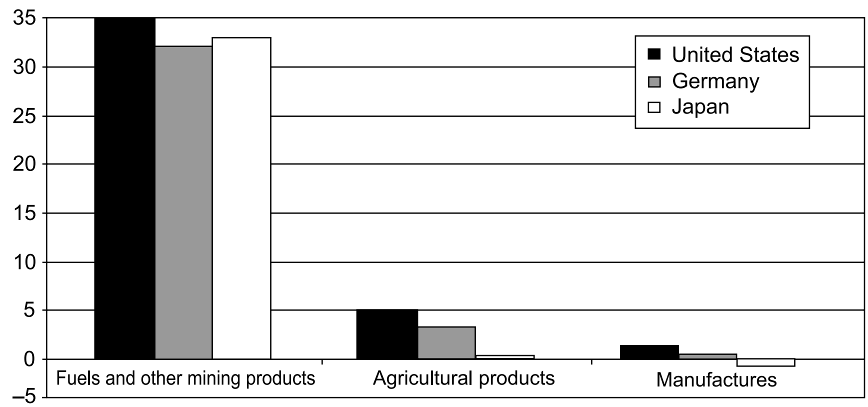
On the other hand, economic growth in the developing regions remained robust in 2005, though somewhat less dynamic than in the preceding year. In South and Central America (including the Caribbean), Africa and the Middle East, GDP growth averaged between 4 and 5 per cent. Developing Asia did not escape the global trend to more moderate growth in 2005. However, with regional GDP growth up by 6.5 per cent, Asia again recorded the highest growth of all developing regions. China and India, the two countries with the largest populations in the world, again reported outstandingly high GDP growth in 2005—at 9.9 per cent and 7.1 per cent respectively. The strongest economic growth of all regions in 2005 was reported by the CIS countries.

Developments in the world energy markets not only impacted regional economic growth, but also shaped global trade flows. The most visible sign of change in the global energy markets is the substantial rise in fuel prices and, in particular, the price of crude oil since 2003. These price developments are caused by major shifts in global oil demand. Robust economic growth in the US and vigorous energy-intensive growth in major emerging economies (especially China) were key factors. Strong oil demand in the US economy led to a sharp rise in its oil imports as domestic crude oil production continued to shrink. The strength of oil demand in many emerging markets was underpinned by the high energy intensity of this growth. Recently, oil demand has been artificially sustained in some of these markets as end user prices were not fully adjusted to reflect the rise of energy prices in international markets.

High global oil demand growth quickly absorbed the existing excess oil extraction capacity, located mainly in the Middle East. The low short-term price elasticity of oil supplies is due to the fact that additions of new capacity require an increase in drilling activities and investments in oilfield developments which need a lead time of several years before production capacity goes up.

Figure 4.1 shows that the price of fuel and other mining products in each of the three economies rose by more than one-third, while the import prices of agricultural and manufactured goods nearly stagnated or increased moderately in 2005. The negative impact of the oil price hike on world economic growth has so far been less far-reaching than observed in the past.

Figure 4.1 Import Prices of Major Product Groups in Selected Economies, 2005 (Annual Percentage Change)



Source: WTO.

RECENT TRADE DEVELOPMENTS—REGION-WISE DEVELOPMENTS

All regions participated in the deceleration of world merchandise trade, as each major region expanded its real merchandise imports in 2005 less rapidly than in 2004. The expansion of imports of the oil-importing developed countries—Japan, the EU and the US in 2005 was less than half the rate recorded in 2004. While US imports rose less than world trade they still expanded twice as fast as those of the EU. Linked to its sluggish economic performance, Europe's trade growth was sharply reduced in 2005 (see Table 4.2).

Table 4.2 GDP and Merchandise Trade by Region, 2004–2005 (Annual Percentage at Constant Prices)

	GDP		*Exports*		*Imports*	
	2004	*2005*	*2004*	*2005*	*2004*	*2005*
North America	4.1	3.4	8.0	6.0	10.5	6.5
United States	4.2	3.5	8.5	7.0	11.0	5.5
South and Central America[a]	6.8	4.9	12.5	10.0	18.5	14.0
Europe	2.3	1.7	7.0	3.5	7.0	3.0
European Union (25)	2.2	1.6	7.0	3.5	6.0	2.5
Commonwealth of Independent States	8.0	6.6	13.0	4.5	16.0	16.5
Africa and Middle East	5.7	4.5	7.0	7.5	13.5	12.0
Asia	4.2	4.2	14.0	9.5	14.0	7.5
China	10.1	9.9	24.0	25.0	21.5	11.5
Japan[b]	2.3	2.8	10.5	1.0	7.0	2.5
World	3.9	3.3	9.5	6.0	–	–

Source: WTO.
Notes: [a] Including the Caribbean.
[b] Trade volume data are based on Japan's customs statistics. National account data that report a marketing stronger export and import growth in 2005.

North America's real merchandise exports and imports expanded by about 6 per cent, the same rate as world trade in 2005. Oil-exporting Canada and Mexico increased their real imports faster than their exports, while the opposite development could be observed for the US. South and Central America's merchandise exports and imports continued to be among the most dynamic trade flows in 2005. Strong global demand and high prices for its major export commodities, combined with robust economic growth in the region, stimulated the region's exports and imports, which expanded at double-digit rates. The major net-oil exporting regions—the Middle East, Africa and the CIS—all recorded a very strong expansion of their real merchandise imports by far exceeding world trade growth.

Asia's merchandise exports and imports expanded by 9.5 per cent and 7.5 per cent respectively. Asia's trade developments are prominently shaped by China's performance. In 2005, China's exports expanded by one-quarter in real terms and thereby more than two times faster than Asia's total exports or its own import growth.

International trade theory confirms the competitiveness of manufacture in a given location. It identifies the place where the manufacturing would be most efficient and it also explains if the local governments would allow free flow of trade between countries.

International trade was in operation long before any trade theories were evolved. These theories are helpful today to MNCs in planning their operations. On the basis of trade theories, firms can expect that the greater the dissimilarity between nations, the greater is the trade potential between them. However, most trade occurs among nations having similar status. It is, however, believed that free trade results in the most efficient utilisation of the resources of the world. While trade theories talk about cross country benefits and cost, trading decisions are taken at the firm level only.

Governments usually want to influence trade for economic, social or political objectives. A variety of measures are tried by them to balance conflicting objectives and appease various interest groups. In India, for instance, the government has been walking a tightrope as it wants to invite foreign direct investments (FDIs) where foreign companies can have majority share holdings even up to 100 per cent while the labour unions are against the proliferation of foreigners in the Indian business world.

Political concerns rather than economic factors are the main reason for governmental interference in international trade. Political problems have led to serious conflicts within and among nations. This manifests itself in several ways including the fear of loss of jobs for local residents. However, companies do not find any barriers holding back their international forays. In fact, most governments assiduously make efforts to assist such companies in their overseas ventures.

To augment their efforts of going international, countries can use the United Nations (UN) bodies like the World Trade Organization (WTO) and regional economic groups to reduce trade barriers on a multilateral basis and they can agree on a simplified mechanism for the conduct of international trade. Trade liberalisation on a global basis is difficult due to fundamental differences between nations.

As stated earlier, one of the most important reasons for governmental interference in international trade is to secure and expand employment opportunities for its population. With this theory, there can be the possibility of retaliation and the fact that both import and exports create job, it is difficult to determine the effect on employment of a government policy protecting an industry.

Trading worldwide is possible in those countries that subscribe to free trade, at least to some extent. Most countries, however, have been giving lip service to free trade. The reasons for this non-subscribing to free trade are:

1. To give a boost to local business and protect it from international competition.
2. When a country can not provide the necessary infrastructure required by international traders.
3. When a country's political agenda does not match with free trade.
4. When the economic level of a country is low and the consumers are not able to afford anything beyond food and other items of dire necessity.

It is for these reasons that a number of trading models have emerged and firms select one or more of these models while going overseas:

1. A single low-cost product to be sold universally or a number of products with different values to suit each country.
2. Special research and development efforts to keep adding innovative features to products or waiting for the competition to bring about a new innovative product and then with the help of reverse engineering bringing out a better alternative product (a 'me too' product, but better).
3. Companies have the choice of keeping to home country production for gaining economies of scale because of additional export trade or to outsource production to countries where there is a production cost advantage, due to either lower labour costs or availability of raw materials at lower costs.

4. Integrating the host country's business methods, ethics or maintaining the home country's standards. For example, if it is the norm in the host country to sell products on bargain counters, the firm has to decide to stick to their own distribution channels or vend through the bargain counters.
5. Companies have the choice of dovetailing their product to meet local needs or letting the product stay as it is. Doughnuts are eaten for breakfast in the West, while in Japan they are eaten as snacks. The company Donut, therefore, started a chain of doughnut restaurants near railway stations and shopping malls in Japan.
6. Outsourcing manufacturing operations to low-cost labour countries can be counterproductive for two reasons, one, the worker productivity may be much lower, increasing the overall labour cost and two, the product quality may suffer because of the country's lower benchmarks.

Trade theory confirms the position of countries best suited for manufacturing and those ideal for marketing products. The theory of comparative advantage of nations explains the supply and demand management proportions and any shift in the same can cause a paradigm shift in trade and its spread. Comparative advantage accrues to countries because of the following reasons:

1. Availability of advance technology.
2. Availability of low-cost and yet skilled labour.
3. Availability of raw materials.
4. Proximity of markets.
5. Availability of low-cost finance.
6. Having a good infrastructure base.

Governments of nations play a major role in trade, at times to impede its progress mainly to protect national interests. Even large economies and countries with financial muscle try to stop the free flow of trade between nations. The US has protectionist laws that safeguard its country's interest such as anti-dumping laws, fibre agreements that provide for a quota system for the entry of textiles from different countries into the US. The fibre agreement apparently is on its way out due to pressures from the WTO.

Countries seek a favourable balance of payment situation in order to gain influx of gold as per the mercantilist theory. The neo-mercantilist plan is meant to address some social or political issues.

In the seventeenth century, Adam Smith introduced the theory of absolute advantage. According to Smith, these advantages could accrue to nations because of their natural climate, availability of raw materials, technology with patents. India, for instance, enjoys an advantage because of the availability of raw materials, trained manpower and variegated climate conditions from where the manufacturer can choose the best required for the company. Proximity to international markets adds another advantage as it saves on transportation costs and time. In other words, countries that do not have absolute advantage can still get into international markets with comparative advantage coming from these factors and from special skills needed for the manufacture of certain products.

The export and import trade of countries is governed by the trade policy its government formulates to regulate trade. These trade policies are meant to assist the trade by firms in the following manner:

1. In deciding with which countries they should have export–import ties.
2. What product(s) they should be importing and exporting to which country.
3. Whether these products should be fully manufactured in the home country or partly there and the rest in the host country.

4. Should the manufacturing process be outsourced to a third country or not.
5. If the manufacturing process is not to be carried out in the home country, what quality control measures are required to be taken to ensure that quality standards are maintained.

International trade faces barriers placed by governments of different countries, unless there is no governmental interference (in international trade). Trade pacts between nations, both bilateral and multilateral have become the norm today, which govern international trade to a large extent.

If, however, there were no such barriers, trade would follow the natural route of comparative advantage between nations; a country having core competency in one area over another country would be able to export its products to that country.

Trade between nations has been there from the last several centuries—from 1500 AD, when the nations were getting formed out of the city-states and tribes as gold had become the standard of product-trade exchange. The nations with gold reserve were considered rich and the balance of trade was equated by giving away of gold by the low-exporting/high-importing nations to the high-exporting/low-importing nations as gold had become the standard of product-trade exchange.

Today, the balance of trade means that if a country is exporting more than it is importing, the balance is in its favour, otherwise it is not. In reality, the surplus nation is providing credit to the deficit nation and if this credit cannot buy goods required by the surplus nation from the deficit nation, it can be harming the surplus nation.

Nations no longer work on the theory of absolute advantage of nations. The theory says that a country that can produce a good at a lower cost than all others, can sell to the other nations.

The lower cost of manufacture comes from the following factors:

1. Economies of scale of manufacture where the fixed cost of manufacture remains constant while the total production increases. For example, if a firm is making 1,000 cars per day and its daily fixed cost is Rs 100,000, then the fixed cost per unit comes to Rs 100. When the firm increases its production to 1,200 cars per day, its fixed cost per unit comes down to Rs 83.33 (this is based on the premise that no new supervisor has been hired or the fixed cost has not gone up in any other manner).
2. The firm uses robotics or other labour-saving devices in its manufacturing process, which cut down on production time and cost with new technology.
3. Experience curve helps in reducing per unit variable cost. This reduction comes from the workers who gain experience working on the same equipment over the years and this reduces the rejection rate as well as the manufacturing time.

Firms and countries can achieve comparative advantage over each other. One country could be more efficient in automobile technology while the other could be an expert in computers. In such a case, instead of developing the skills not available with them, they could exchange products.

Some countries enjoy a natural advantage over others because of the following reasons:

1. Availability of natural resources like water.
2. Raw materials.
3. Climatic conditions conducive to the manufacture of some products.
4. Trained and skilled manpower.

Summarising, the trade theory explains what can be produced competitively in a given location, where a firm may go to produce a given product efficiently and whether government policies may interfere with the free flow of trade between countries. The following are the eight theories of international trade:

1. Mercantilism
2. Absolute advantage
3. Natural advantage
4. Acquired advantage
5. Country size
6. Comparative advantage
7. Factor proportions
8. Product life cycle

Adam Smith's theory of a country's absolute advantage holds good even today except that in real terms it is the theory of comparative advantage that is operative today. Companies look for places most suitable for manufacturing and distribution to their selected markets. Countries have relative advantage in labour, land costs, capital costs and availability and these factors are responsible in products suited to these areas being made in these countries. In the introductory stages of a product life cycle, products are made in the country where they have been developed. In the next stages of the product life cycle, the manufacturing moves out to other nations. Trade develops between industrialised nations as they form similar market segments with similar usage patterns of the products. Developing nations try to export their goods, which could result in the home country starving of the products. Trade decisions are made at the company level but they are always influenced by the government's policies on trade and commerce. However, companies plan international trade because they want to use the excess production capacity, low cost of manufacture or they want to spread the manufacturing costs on large volume sales based both on local and international sales.

INTERNATIONAL TRADE AND GOVERNMENT REGULATIONS

Government of countries have a responsibility towards the stakeholders involved in trade and commerce. Therefore, no country allows the free flow of imports and exports even though these provide resources to the country. Countries believe that trade and commerce within the country provide employment to the local population. However, as both imports and exports generate employment opportunities restrictions for international players coming to do business in the country could become counterproductive to the interests of the country. With several countries opting for the market economy, the trade policies of these countries have changed. However, they are yet to redistribute the income coming from the trade.

Some countries believe that protection to local small industry is required, otherwise these will be wiped out. India too, had a protectionist policy towards local industry to a large extent. However, in such countries, the consumers are the main sufferers as they have to accept the product with whatever quality standards it is sold as the choices are limited to them. The reason for the protectionist policy adopted by governments is that local businesses have to compete with companies from the developed world. Moreover, governments attempt to solve the problems faced by them on account of 'balance of payment', currency fluctuations and adjustments in international prices. Trade controls help to regulate prices in international markets and in monopoly situations and help local players secure greater profits.

International trade is to an extent regulated by local governments because of political motivation rather than economic considerations. Governments like to keep the supply of essential goods and defence equipment within the country as international traders could stifle their supplies during exigent situations because of the influence of power block countries. Tariffs, subsidies, custom duties and specific non-tariff barriers are used by countries for this purpose. At times, countries force buyers to buy only locally made products through legislative regulations. Countries can place barriers by asking for near impossible product specifications or quality acceptance levels. Some European buyers want to know the actual acreage of the crop to be imported from India. Countries can force exporters to buy in exchange, products from them that are not required by the exporting country. Governments try to identify ways of ensuring that international traders coming to their country do minimum harm, if at all to the local business.

STRATEGIES FOR THE TWENTY-FIRST CENTURY IN INDIA

As has been well established so far, no country can remain an island; it cannot survive in an isolated market. The dream of Mahatma Gandhi of a world without boundaries is becoming a reality. Let us go back to the beginning of trade in the world. Even in ancient times, condiments from India and the east, silk from China, horses from the Arab nations were bought and sold far and wide. In prehistoric times, there were no countries, no boundaries, people lived the life of nomads in clans and roamed about in search of food and water. The first civilisations settled close to rivers, which gave them access to water. These people hunted for wild game in the nearby jungles. Their needs were few and yet the first commerce must have started when one clan had meat and the other tatters for making dresses. Refusal to exchange goods led to fights. This resulted in the death of the menfolk and a change in the ratio of men and women giving rise to polygamy in the Middle East. It was the beginning of an era of women traders, who were hard bargainers but not fighters like their menfolk. Women bartered their wares to get what they wanted from other women in their own clan and later on from the nomadic clans that they came in contact with.

When more than two persons got involved in a deal, the situation got a little complex. If A had one item that C wanted, while C had something that B could sell to A to satisfy his demand, they needed a system of exchange other than the barter system. The first monetary system evolved to meet this demand. Prehistoric coins found in excavations confirm the usage of coins during that period.

The Industrial Revolution started in the UK and Europe in the seventeenth century. Steam engines, internal combustion engines, telephones and electricity were developed and put in the market. This led to greater speed in travel, communication and revolutionised the manufacturing process. Unfortunately, India missed the bus because it was under British rule. The British were keen on subjugating Indians by ensuring that their education levels were such that they could produce a race of clerks only.

The twentieth century brought independence to India and several other countries and while India could walk tall in the comity of nations it stayed a backward underdeveloped nation.

It also brought about rapid changes in the way people live, work and do business. The twentieth century was witness to the World Wars, the Holocaust and the bombing of Hiroshima and Nagasaki. On the flip side, the twentieth century also saw the invention of motorcars, with Henry Ford's assembly-line operations, which revolutionised the entire manufacturing industry. Another revolution, though bigger in dimension was Albert Einstein's theory of relativity, which led to splitting of the atom and the the invention of the atom bomb. Today, however, the atomic energy is being harnessed for peaceful purposes as well.

Coming full circle, the world is again becoming boundary-less as evident from the reduction in trade barriers, third-country manufacturing, free trade zones and UN agencies trying to organise a free market world where movement of goods for trade would be freely allowed across the world. Travel is so much faster with supersonic planes; communication is quick and efficient in most parts of the world. Comfort-giving, time-saving gadgets have made life easy and interesting. On the flip side of the coin, terrorism, sometimes state sponsored, is making life quite miserable for a lot of people.

INTERNATIONAL MARKETING TODAY

The world of commerce has undergone a sea change in the following manner:

1. Fast changing technologies.
2. Shortening of product life cycles.
3. New channels of distribution.
4. New avenues for advertising and promotion.

In the Indian business, people buy and sell, make and sell, or make to give to others for sale. Exports have become a priority since 1991, when the Government of India decided to open its markets to world players without any reservations. Imports were liberalised and partial convertibility of Rupee helped businesses import goods, especially for export-based manufacture. Indian business could cash in on its advantages like its low-cost labour force, high-tech workforce, expertise in export of computer software, availability of raw materials, a huge domestic market for testing the products and a large English-speaking population.

Internationally, before 1991, the developed nations and their MNCs were doling out old technologies at high prices to Indian businessmen in the belief that they did not know about further advances in technology, which they wanted to keep for their own countries. After all, the poor Indians would not know the difference, and old itself is new and good for them. Even the capital (manufacturing equipment) equipments sold to India were often used ones.

Export imperatives for India come from the following reasons:

1. More efficient production.
2. Better quality norms.
3. Lower operating costs.
4. Availability of raw materials in the international market at competitive prices.

Indian business investments in other countries should be based on the estimated inward cash flow through profits/dividends accrued from the business. Countries have different economic status, demand patterns and thorough market surveys are the key to success in international markets.

Indian firms can organise finances for export trade from the following sources:

1. Banks.
2. Trade bills by discounting them for short-term finance.

3. Global depository receipts, American depository receipts.
4. Foreign banks.
5. Multi-currency bonds.
6. Foreign equity through NASDAQ, Dow Jones.

INTERNATIONAL TRADE TRANSACTIONS

International trade is conducted with the help of the following documents:

1. Trade draft, bill of exchange, sight draft and time draft.
2. Letter of credit.
3. Bill of lading/airway bill.

The bill of lading and its counterpart for dispatches by air, the airway bill, represent the following transaction between the seller and the buyer:

1. It is a receipt of goods by the carriers from the exporter.
2. It is a contract between exporter and the transporters for transfer of goods to a destination for a third party, the buyer.
3. It is a document for title of goods for importer, which he gets after completing certain formalities like obtaining it (the bill of lading along with other documents) from a bank after making the desired payment through a letter of credit.
4. The bill of lading is a legal document accepted by international law.

International transactions take place as discussed next:

1. An enquiry for the product required by the importer is generated by him and sent to the exporter.
2. The exporter responds by sending his quotation to the importer and on his acceptance of the same, the quotation letter becomes a sales contract.
3. Usually, under the terms of contract, the importer opens a letter of credit (LC) for the value of the order in the exporter's bank through his own bank.
4. On receipt of the LC, the exporter hands over the goods to the transport carrier like a ship or aircraft against a bill of lading or an airway bill.
5. The exporter then hands over the following documents to his bank for presenting to the importer's bank:
   - Invoice
   - Packing list
   - Bill of lading
   - Country of origin certificate (required by some countries only)
   - India's export certificate

Besides, the Reserve Bank of India (RBI) needs the following documents:

1. The GR 1 form, now replaced by the custom house computer-generated exchange control copy on the basis of the invoice (earlier it was sent to the RBI but not anymore).

2. The SDF form in which the exporter gives his declaration under the Foreign Exchange Regulation Act, 1973, regarding the details of his bank through which the exporter is arranging the transaction. This enables the RBI to keep a track of the foreign exchange payment due on the invoice and to see that the foreign exchange is received in India on time.
3. On receipt of payment the entire set of documents are sent to the RBI and only then is the case considered closed.

The system and the forms stated here are subject to change and students are encouraged to find out about the latest systems and forms.

The LC is a document generated by the importer's bank on instructions from the importer in favour of the exporter and is negotiated through the exporter's bank. It is the most widely used fiscal document in export trade and it can be made in several ways, as discussed next:

1. The importer's bank opens the LC on receiving instructions from the importers.
2. In essence, the importer gets time to pay, that is, he gets credit.
3. The bank agrees to honour a draft drawn on the importer by the exporter's bank, provided the bill of lading and other documents are received as proof that the exporter has actually exported the goods and that they can be obtained by the importer on production of the documents.
4. The LC is issued on the basis of the creditworthiness of the importer.
5. For the exporter, the LC removes the risk involved in exporting to a new country or a new buyer.

The following types of LCs may be issued:

1. Confirmed LC, accepted by the exporter's bank.
2. Letter of credit without recourse, where the importer has no power to change or withdraw it once it is issued.
3. Letter of credit with recourse, where the importer can alter it even after it has been issued.
4. Revocable LC does not guarantee payment to the exporter and hence is not used.
5. In the case of the irrevocable LC, every person has to agree to change otherwise no change is possible and payment has to be made by the importer's bank to the exporter through his bank.
6. Letter of credit allowing part shipments.
7. Revolving LC, which get reinstated once they have been used and money paid through them.

Besides this, Time Drafts can be used where the exporter offers credit to the importer for a fixed period of time as stipulated in the time draft as opposed to sight drafts where the payment has to be made on sight (instantly).

Barter System or No Cash Business

When no money transaction takes place and only goods are supplied in return for goods received from another country, then it is termed a no cash business or a barter system. Before the break up of the USSR, India and the USSR had a business agreement whereby India got paid for exporting to the USSR in Indian rupees. In other words, when India exported to the USSR, they had to import goods of an equal money value from the USSR.

In the seventeenth century, Adam Smith propounded the theory of absolute advantage of nations. Countries gained an absolute advantage when they could produce a product better and cheaper than other countries. Smith stated that unless a country had an absolute advantage, it could not sell its products in another country. The ability to produce goods is different in different countries due to economies of scale, patents, raw material availability and quota systems that do not allow for the import of products from a certain country beyond a certain point. Thus, countries have relative or comparative advantage.

CUSTOMS AND TARIFFS

Custom duties and tariffs are the barriers that governments create against foreign firms entering their markets as also to help the local businesses. Tariffs are of different types as discussed next:

1. Single-column tariff for a product for all countries.
2. Two-column tariff, which gives one tariff rate for most countries but a different tariff rate for those countries with which an agreement exists for reduced tariff rates.
3. Preferential tariff is tariff at a reduced rate like the tariff for trade between Commonwealth countries or free trade zones.
4. Low tariff rates for underdeveloped countries assist them in entering the markets of developed countries.

TYPE OF DUTIES

Customs duty is charged on the following criteria:

1. Ad valorem duty: This is charged as a percentage of the price. It is based on the Cost Insurance and Freight (CIF) landed price of the product.
2. Specific duties: These are based on the weight of the goods, their volume or number of units exported.
3. Alternate duty: In this case, both ad valorem and specific duties are charged.
4. Anti-dumping duty: This duty is charged on countries that dump their products at unreasonably low rates, which could harm the local industry.
5. Countervailing duty: This is charged as additional duty to offset the export incentives given to exporting firms by their governments.
6. Variable import duty: This is charged by Sweden and some other European countries for agro-products if the prices are lower than local prices.
7. Temporary export surcharge: This is levied mostly in the US and the UK to offset its balance of payment deficits with other countries.

With markets open for global trade, Indian firms find that going overseas is an imperative, which they can ill afford to ignore. Although political turmoils continue across the world, the world is becoming a smaller place. The best way to survive in today's business environment is to look for markets overseas and plan for foreign investments as well.

EXPORT DOCUMENTATION

The following are some of the forms used for overseas business by Indian exporters. Students would, however, do well in verifying the correct forms needed at the time of actual exports as these keep changing as per government orders:

Document 1

Airway bill. Serial number.

Shippers name and address.
Consignees name and address.
Issuing carrier agent's name and city.
Agent's IATA code and account number.
Airport of departure and requested routing.
Currency and declared value for carriage.
Declared value for customs.

Handling information: Notifying address (invoice, packing list importing country's custom invoice, export certificate to be attached).

Number of pieces, gross weight, rate class and commodity item number, rate charge and total amount.

Nature and quantity of goods, packing dimensions, weight and volume.
Packing prepaid or postpaid, other charges.
Total charges due to the agent.
Total charges due to the carrier.

Shipper's certificate that the information given is correct and that any dangerous part of the consignment has been labelled properly with his signature.

Signature of the issuing carrier or his agent with his official seal.

The above bill in triplicate will be in original and not photocopied.

Document 2

Importing country's customs invoice specimen (from an importer from Canada):

Revenue Canada.
Customs and excise.
Vendors name and address (say, from India).
Consignees name and address.
Transhipment if any, direct mode and place of direct shipment to Canada.
Date of shipment.
The references like purchase order number.

Purchasers name and address.
Country of transhipment (in this case Canada).
Country of origin of goods (if several countries, they all must be stated).
Condition of sales and terms of payment, like consignment, leasing.
Currency of settlement.
Number of packages.

Specification of commodities, kind of packing, general description and characteristic grade and quality.

Quantity.
Selling price—rate per unit and total.
Commercial invoice number.
Exporters name and address.
Departmental ruling if applicable.
Originator's name and address and signatures.
Transport charges if any.
Royalty if any.

Certificate to say that the purchaser has bought the items for use in their production if applicable.

Document 3

Export certificate (original).
Exporter's address.
Consignee's name and address.
Place and date of shipment.
Country of origin.
Country of destination.
Supplementary details, if any.
Marks and numbers and kind of packages—description of goods.
Quantity details.

For value:

Certification by the competent authority saying, 'the undersigned certify the goods described above have been charged against the quantitative limit established for the year shown above in the category shown by the provisions regulating trade in products with the government of the host country.'
Signed and sealed by the competent authority with its full address.

Document 4

Exchange control copy of the Indian Customs' Enforcement Directorate India (EDI) System.
Air cargo unit airport New Delhi.
SB number.

Certificate saying 'this consignment was not opened for physical examination by the customs'.

Port of loading.

Code.
State of origin.
Exporter details—PAN number.
Address.
Consignee's name and address.
Port of loading.
Port of discharge.
Number of packages, including loose and total to be shown separately.
Country of destination.
Net weight, gross weight.
Nature of cargo, marks and numbers.
Airway bill.
Forex bank account.
Free on Board (FOB) value.
Ad. code.
Invoice value.
Invoice number and date.
Discounts.
Commission.
Other deductions.
Nature of consignment.
Currency of invoice.
Exchange rate.
Nature of payment.
Period of payment.
User's name and address—item details.
Quantity—units and description.
Rate per unit.
Total value.
Cess serial number.
Tariff value.
Rate ad valorem.
Cess quantity.
Cess amount.
Excise rates—drawback advance.
Drawback rate.
Type of drawback amount.
Quota number and export date.
AR4 number and AR4 date.
Division commissionearate.

Page 2

Exporter number and name with address.
Consignee's name and address.
Invoice number and date.

Exchange rate.
Item details.
DEEC No.
DEEC registration number and DL.
Receipt number.

Item RITC CD and description—quantity in units, item rate per unit, total value in foreign currency, FOB Indian rupee scheme.

Cess sr. no.
Tariff value rate.
Ad valorem cess.
Quantity cess amount.
Drawback sr. no.
Customs rates.
Drawback advance excise rate.
Quota number.
Export date.
AR4 number.
Date division commissionearate.
Items.
Quantity PM Value—total PMV.
Export Commission.
Add insurance.
Total cess.
Total drawback.
Total DEPB.
I/We declare that the particulars given herein are true and correct.
I/We enclose herewith the following documents:

1. Drawback declarations 4A, 5A ticked.

   Signature of the exporter with date.

Let Export—date allowed for shipment

Signature of the officer of the custom

Contents received on board Date of shipment
Date signature of the master of the vessel signature of the officer of customs

Document 5

SDF form.
Shipping bill number.
Date.
Declaration under Foreign Exchange Regulation Act, 1973.

I/We hereby declare that I/We am/are seller/consigner of the goods in respect of which this declaration is made and that the particulars given in this shipping bill no. ………………

date .... are true and that the value as contracted with the buyer is same as the full export value declared in the above shipping bill.

The full export value of the goods is not ascertainable at the time of export and that the value declared is that which I/We, having regard to the prevailing market conditions, expect to receive on the sale of goods in the overseas market.

I/We undertake that I/We will deliver the bank named herein .... the foreign exchange representing the full export value of the goods on or before .... in the manner prescribed in the Rule 9 of the Foreign Exchange Regulation Rules 1974.

I/We am/ are or am/are not in caution list of the RBI.

Signature of exporter with seal.

Name of the signatory and date.

State appropriate date which must be the due for payment or within six months from date of shipment, whichever is earlier, but for exports into warehouse established outside India with permission of the Reserve Bank of India it must be within 15 months.

Signature and seal of the customs officer.

(strike out whichever is not applicable)

The certificate of origin is obtained from the relevant export promotion council, a list of the existing councils is given next with addresses and other details. However, for textile exports to countries having the quota system requires the certificate of origin to come in the following manner:

Procedure to be followed for submitting 'country of origin' certificates while clearing consignments in the USA on or after 1.1.2005

Queries have been received by the Council regarding the procedure to be followed for submitting 'Country of Origin' Certificate while clearing consignments in the USA on or after 1.1.2005, that is, after the removal of quotas.

The matter has been clarified with the Embassy of India, Washington and through them with the US Custom Services, who have indicated as follows:

1. There are two types of 'Textile declaration' document. Single Country declaration and Multiple Country declaration. This document can be prepared and signed by the importer, exporter or the producer.
2. Single Country declaration would be required if the raw materials and all production of the item was done in India and may be signed as stated in (1).
3. Multiple Country declaration would be required if the raw materials or processing occurred in a country other than India and may also be signed as stated in (1).
4. No Government intervention is required with a textile declaration. The document is exclusively prepared by the parties stated as in (1).
5. Normally the importers ask the exporter or producer to complete the textile declaration because they are more familiar with the manufacturing process and it makes them less liable if the information contained in this declaration is incorrect.

The format of the Single Country declaration is at Annexure-I and Multiple Country declaration is at Annexure-II.

These declarations as clarified above may be prepared and submitted by the manufacturer, producer, exporter or importer of the textiles or textile products. Separate declaration may be filed for each invoice, which is presented at the time of entry into the USA. Entry will be denied unless it is accompanied by a properly executed declaration as per the procedure mentioned above.

All concerned may please note.

Annexure-I

SINGLE COUNTRY DECLARATION

I, ... (name), declare that the articles listed below and covered by the invoice or entry to which this declaration relates are wholly the growth, product, or manufacture of a single foreign territory or country, or insular possession of the US, or were assembled in the single foreign territory or country, or insular possession of the US of fabricated components which are in whole the product of the US and/or the single foreign territory or country, or insular possession of the US as identified below. I declare, that the information set forth in this declaration is correct and true to the best of my information, knowledge, and belief.

A .... (Country*)
B .... (Country*)
C .... (Country*)
D .... (Country*)
Etc.

Marks of identification, numbers	*Description of article and quantity*	*Country* of origin*	*Date of exportation*
....	....	....	....
....	....	....	....
....	....	....	....

Date ....
Name ....
Signature ....
Title ....
Company ....
Address ....
....

* Country when used in this declaration includes territories and US insular possessions. If the entry or invoice to which the declaration relates covers merchandise from more than one country, each country will be identified in the declaration by the alphabetical designation appearing next to the named country. In the case of an assembly operation of US components, both the country of assembly and the US shall be reported (e.g. Haiti/US) along with the date of exportation from the country of assembly.

Annexure-II

MULTIPLE COUNTRY DECLARATION

I, ... (name), declare that the articles described below and covered by the invoice or entry to which this declaration relates were exported from the country* identified below on the dates listed and were subjected to assembling, manufacturing or processing operation in, and/or incorporate materials originating in, the foreign territory or country* or countries*, or the US or an insular possession of the US, identified below. I declare that the information set forth in this declaration is correct and true to the best of my information, knowledge, and belief.

A .... (Country*)
B .... (Country*)
C .... (Country*)
D .... (Country*)
Etc.

Marks of identification, numbers	*Description of article and quantity*	*Description of manufacturing and/or processing operations*	*Date and country of manufacturing and/or processing*		*Description of material*
			Date of		
			Country	*Exportation*	
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....

Date ....
Name ....
Signature ....
Title ....
Company ....
Address ....
....
....

* Country or countries when used in this declaration includes territories and US insular possessions. The country will be identified in the above declaration by the alphabetical designation appearing next to the named country.

However, since changes keep taking place in these, including addresses, students would do well to get the latest details from the right persons. The information given here is more in the nature of examples.

EXPORT PROMOTION COUNCILS OF INDIA

1. Export promotion councils under the department of commerce.
2. Export promotion councils under the ministry of textiles.
3. Commodity boards under the department of commerce.
4. Other organisations.
5. Public sector undertakings.

Agricultural and Processed Food Products Export Development Authority (APEDA)

Address:	Ansal Chambers No. II, 3/F, 6, Bhikaji Cama Place, New Delhi–110 066, India.
Telephone:	91-11-6192141
Fax:	91-11-6195016
E-mail:	apeda@giasd101.vsnl.net.in
Contact person:	D. Rajagopalan, chairman; Sqn. Ldr. D.B. Sabharwall.
Areas of interest:	Animal products, cereals, floriculture and seeds, fruits and vegetables, processed fruits and vegetables, other processed food.

Apparel Export Promotion Council

Address:	15, NBCC Tower, Bhikaji Cama Place, New Delhi–110 066, India.
Telephone:	91-11-6183351, 6169352, 6169357, 6169393
Fax:	91-11-6188584, 6188300
Website:	http://www.aepc.com
Contact person:	K.L. Madan, chairman
Regional office:	Bajaj Bhavan, 12 Floor Nariman Point, Mumbai–400 021.
Telephone:	91-22-204706, 2204592, 4204017, 4204992
Fax:	91-22-2043178
Areas of interest:	Readymade garment excluding woollen knitwear and of leather, silk, jute hemp.

Chemicals Pharmaceuticals and Cosmetics Export Promotion Council (CHEMEXCIL)

Address:	Centre-1, 12th Floor, World Trade Centre, Cuffe Parade, Mumbai–400 005.
Telephone:	2021330, 2021288
Fax:	022-2028684, 2026684
Website:	http://www.chemexcil.com
Contact person:	Kishor Shintre, executive director.
Areas of interest:	Basic chemicals, namely, drugs and fine chemical dyes, intermediate, alcohol and coal tar chemicals, organic chemicals, agro-chemicals, glycerine, soaps, detergents, cosmetics and toiletries, processed talc, agarbatti, essential oils.

Carpet Export Promotion Council

Address:	110-A/1, Krishna Nagar (Behind Govt. Sr. Sec. School), Safdarjung Enclave, New Delhi.
Telephone:	6102741, 6101024
Fax:	011-6165299
Contact person:	O.P. Garg, chairman.
Areas of interest:	Handmade/woollen carpets, rugs, durries, druggets and namdhas including handmade silk carpets.

Cashew Export Promotion Council of India

Address:	P.O. Box 1709, Chittoor Road, Ernakulam South, Cochin–682 016.
Telephone:	0484-353357, 361459
Fax:	0484-351973, 370973
Contact person:	P. Bharathan Pillai, chairman.
Areas of interest:	Cashew, kernels.

Chemical and Allied Products Export Promotion Council

Address:	World Trade Centre, 14/1-B, Ezra Street, Kolkata–700 001.
Telephone:	033-258216-7, 258519
Fax:	033-255070
Contact person:	N.B. Patel, chairman.
Regional office:	8, Shahid Bhagat Singh Margh, Lakshmi Niwas, New Delhi–110 001.
Telephone:	011-3340346
Fax:	011-3732069
Areas of interest:	Chemicals and allied products, namely, glass and ceramics, paints, rubber products including tyres and tubes, paper and paper products including books, journals, periodicals, safety matches, fireworks and explosives, cement products, marble chips, adhesive shellac-compound, photo-typeset films and micro films and wood products.

Cotton Textile Export Promotion Council

Address:	5th Floor, Engineering Centre, 9 Mathew Road, Mumbai–400 001.
Telephone:	022-3632979, 2021477, 3632910, 2022510
Fax:	022-3632914
Email:	texprocil@bom3vsnl.net.in
Website:	http://www.texprocil.com
Contact person:	Sudhir Thackersay, chairman.
Regional office:	101, Ashoka Estate, 24, Barakhamba Road, New Delhi–110 001.
Telephone:	011-3316168, 3351232, 3327245
Areas of interest:	Cotton textiles.

Coffee Board

Address:	1, Dr Ambedkar Veedhi, Bangalore–560 001.
Telephone:	91-80-262917, 260250
Fax:	91-80-2265557
Telex:	0845-8281

Coir Board

Address:	P.O. Box No. 1752, M.G. Road Ernakulam South, Cochin–682 016.
Telephone:	91-484-351788, 354397
Fax:	91-484-370034
Telex:	0885-6363

Electronic and Computer Software Export Promotion Council

Address:	PHD House (3rd Floor), Opposite Asian Games Village, New Delhi–110 016.
Telephone:	011-6965103, 6964463
Fax:	011-6853412

E-mail:	esc@giasdl01.vsnl.net.in
Website:	http://www.indiansources.com
Contact person:	R.H. Naqvi, executive director.
Areas of interest:	Electronic goods, computer software and related services.

Engineering Export Promotion Council

Address:	World Trade Centre, 1st Floor, 14/1-B, Ezra Street, Kolkata–700 001.
Telephone:	033-250442–4, 3314685
Fax:	3310920, 3753696
Email:	eepacto@eepc.gov.in; eepcbom@eepcbom.eepcbon.cmc.net.in; eepc-ho@eepc.ho.cmc.net.in
Website:	http://www.eepc.gov.in
Contact person:	P.K. Shah, chairman.
Regional offices:	(a) Vandhana Building, 4th Floor, 11, Tolstoy Marg, New Delhi–110 001.
Telephone:	11-3314685, 37116071
Fax:	011-3310920
	(b) 'Centre 1' 12th Floor, World Trade Centre, Cuffe Parade, Mumbai–400 005.
Tel:	022-2186655, 2181673, 2181762, 2181834
Fax:	022-2180119
Areas of interest:	Engineering goods, stainless steel products, fabricated mica, mica-based engineering products and construction services.

Federation of Indian Export Organisations (FIEO)

Address:	PHD House, 3rd Floor Khelgaon Marg, New Delhi–110 016.
Telephone:	91-11-6851310, 6851312
Fax:	91-11-6863087
Telex:	031-73194

Gems and Jewellery Export Promotion Council

Address:	Diamond Plaza, 5th Floor, Dr Dadasaheb Bhadkamar Marg, Mumbai–400 004.
Telephone:	022-3871125, 3888004
Fax:	022-3868752
Email:	vsasury.giasbm@01.vsnl.net.in
Contact person:	V.S.A. Sury, secretary.
Regional office:	F-32 Flatted Factories, Complex Jhandewalan, Rani Jhansi Road, New Delhi–110 055.
Telephone:	011-7514197
Fax:	011-7775274
Areas of interest:	Gems and jewellery.

Export Promotion Council for Handicrafts

Address:	6, Community Centre, Second Floor, Basant Lok, Vasant Vihar, New Delhi–110 057.
Telephone:	011-6875377, 600871
Fax:	011-606144
Email:	secy.epch@axcess.net.in
Website:	http://www.epcd.asiansources.com
Contact person:	Rakesh Kumar, executive director.
Areas of interest :	Handicrafts.

Handloom Export Promotion Council

Address:	18, Cathedral Garden Road, Nungambakkam, Chennai–600 034.
Telephone:	044-8276043, 8278879
Fax:	044-8271761
Contact person:	V.S. Dhanasekar, chairman.
Areas of interest:	Handloom products.

Handicrafts and Handloom Export Corporation

Address:	Jawahar Vyapar Bhavan, Annex-I, 1, Tolstoy Marg, New Delhi–110 001.
Telephone:	011-3315116, 3315282
Fax:	011-3315351
Contact person:	Vinod Kumar Malhotra, chairman and managing director.

Office of the Development Commissioner for Handlooms

Address:	Ministry of Textiles, Udyog Bhawan, New Delhi–110 001.
Telephone:	3012945
Fax:	3792429
Email:	jsbls@text.delhi.nic.in
Contact person:	B.L. Sharma, development commissioner.
Areas of interest:	Promotion of handloom exports abroad.

Development Commissioner for Iron and Steel

Address:	234/4, Acharya Jagdish Chander Bose Road, Kolkata–700 020.
Telephone:	2472753, 2479771
Fax:	2472977
Areas of interest:	Promotion of iron and steel exports abroad.

Indian Silk Export Promotion Council

Address:	62, Mittal Chambers, 6th Floor, Nariman Point, Mumbai–400 021.
Telephone:	022-2025866, 2027662, 2049113
Fax:	022-2874606
Contact person:	Dinesh Kumar, IAS, executive director.
Regional office:	16, National Park, Lajpat Nagar-IV, Behind Vikram Hotel, New Delhi–110 024.
Telephone:	011-6216272
Fax:	011-6430685
Areas of interest:	All natural silk fabrics made ups, garments machine-made carpets.

Indian Trade Promotion Organisation

Address:	Pragati Bhavan, Pragati Maidan, New Delhi–110 001.
Telephone:	91-11-3319560, 3317534
Fax:	91-11-3318142

Council for Leather Export

Address:	53, Sydenhame Road, Chennai–600 003.
Telephone:	044-589098, 582041
Fax:	044-588713, 941-7354

Email:	cle@giasmd01.vsnl.net.in
Website:	http://www.leatherindia.com
Contact person:	P.S. Karthiresan, IAS, executive director.
Regional office:	66, 6H Gopala Towers, Eleventh Floor, 4, Cuffe Parade, Mumbai–400 005.
Areas of interest:	Finished leather, lexprocil leather goods, chrome-tanned hides and skins, chrome-tanned crust leather, E.I. tanned hides and skins and E.I. crust leather.

Marine Products Exports Development Authority (MPEDA)

Address:	MPEDA House, P.B. No. 4272, Panampilly Nagar Avenue, Cochin–682 015.
Telephone:	331901, 314468, 310160
Fax:	0484-313361
Contact person:	P.U. Varghese, secretary.
Regional office:	101, Nirmal Tower, Barakhamba Road, New Delhi–110 001.
Telephone:	011-3719126
Fax:	011-3310682
Trade promotion office:	Sixth Floor, Jamnalal Bajaj Marg, Nariman Point, Mumbai–400 021.
Areas of interest:	Seafood.

National Agricultural Cooperative Federation of India Ltd. (NAFED)

Address:	NAFED House, Siddartha Enclave, Ashram Chowk, Ring Road, New Delhi.
Telephone:	683 2293, 684 0163, 683 1810
Fax:	684 0261
Contact person:	V.B. Mahajan, managing director.
Telephone:	7180460, 7180028

Overseas Construction Council of India

Address:	H-118, Himalaya House, Eleventh Floor, 23, Kasturba Gandhi Marg, New Delhi–110 001.
Telephone:	011-3312936, 3327550, 3722425
Fax:	011-3312936
Email:	occi@giasd101.vsnl.net.in; occi.council@gems.vsnl.net.in
Website:	http://www.occi.org
Contact person:	A.S. Bhandari, chairman.
Regional office:	Commerce Centre, Seventh Floor, J. Dadaji Road, Tardeo, Mumbai–400 034
Telephone:	022-243779
Areas of interest:	Overseas project construction and civil projects engineering.

Powerloom Development and Export Promotion Council

Address:	Civil Court, B Wing, Fourth Floor, Mahakavi Kalidas Marg, Behind Regal, Colaba, Mumbai–400 039.

Plastic and Linoleum Export Promotion Council

Address:	Centre 1, Eleventh Floor, Unit 1, World Trade, Cuffe Parade Centre, Colaba, Mumbai–5.
Telephone:	022-2184474, 2184569
Email:	plascon@giasbm01.vsnl.net.in; plexcon@giasbm01.vsnl.net.in; plexho@bom3.vsnl.net.in
Website:	http://www.plexcon.com

Contact person: R.P. Kalyanpur, executive director.
Areas of interest: Plastics, toys, polyester film and allied products, human hair and human hair products.

Rubber Board

Address: P.B. No. 280, Sastri Road Kottayam–686 001.
Telephone: 91-481-563231
Fax: 91-481-564639
Telex: 0888-205

Shellac Export Promotion Council

Address : World Trade Centre, 14/1B Ezra Street, IInd Floor, Calcutta–700 001.
Tel: 033-254556, 255725
Fax: 2482070, 2484046
Contact Person : Mr A.K. Jha, chairman.
Areas of interest: Shexprocil Lac in all its forms.

Sports Goods Export Promotion Council

Address: Second Floor, 1E/6, Swami Ram Tirth Nagar, Jhandewalan Extension, New Delhi-110 055.
Telephone: 011-525695, 529255
Fax: 011-7532147
Website: http://www.sportsgeepc.com
Contact person: A.K. Jha, chairman.
Areas of interest: Sports goods.

Spices Board

Address: P.B. No. 1909, St. Vincent Cross Road, Cochin–682 018.
Telephone: 91-484-353837, 353578
Fax: 91-484-370429
Telex: 0885-6534

Central Silk Board

Address: 'Meghdoot', 95-B, Marine Drive, Mumbai–400 002.
Telephone: 2031826, 2055532
Fax: 2081842

Synthetic and Rayon Textiles Export Promotion Council

Address: Resham Bhavan, 78, Veer Nariman Road, Mumbai–400 021.
Telephone: 022-2048797, 2048690
Fax: 022-2048358, 4925402
Email: srtepc-mum@x400.nicgw.nic.in
Contact person: O.P. Dhawan, executive director.
Regional office: PHD House, Fourth Floor, Opposite Asian Games Village, New Delhi–110 016.
Telephone: 011-6854760
Fax: 011-6854049
Areas of interest: Silkrayon, cellulosic and non-cellulosic products, blended products from mixtures of cotton/cellulosic and nylon/polyester fibre or yarn and acrylic knitwear.

Tea Board

Address:	14, Biplabi Trailokya, Maharaj Sarani, Calcutta–700 001.
Telephone:	91-33-260210
Fax:	91-33-260218
Telex:	021-4527

Tobacco Board

Address:	Srinivasa Rao Thota, G.T. Road, P.B. No. 322, Guntur–522 004.
Telephone:	91-863-30399, 32993
Fax:	91-863-33032
Telex:	071-264 TOBD IN

Wool and Woollens Export Promotion Council

Address:	612/714, Ashoka Estate, 24, Barakhamba Road, New Delhi–110 001.
Telephone:	3315512, 3315205
Fax:	011-3314626
Website:	http://www.wwepc.com
Contact person:	Raj Choudhary, chairman
Regional office:	Churchgate Chambers, Seventh Floor, 5 New Marine Lines, Mumbai–400 020.
Telephone:	2624680
Fax:	2624651
Areas of interest:	Warm woollen textiles, hosiery knitwear, mixed fabrics and machine-made woollen carpets, rugs and druggets, flex yarn and flex products, acrylic, knitwear.

ANSWER THE FOLLOWING

1. Describe the concept of product saturation levels. Citing at least one example, indicate why product saturation levels help explain the importance of global marketing today.
2. Non-tariff barriers are a major challenge to the world trading system today. Explain what a non-tariff barrier is. What non-tariff barriers currently exist in India and in Japan? (You will probably have to do a little research.)

International Marketing Game Part 4.1

Study the Microsoft case (Number 4) and prepare answers to the following discussion questions:

1. What is Microsoft's approach to international business? Are they operating as an international, multinational, or global enterprise? What is the customer buying?
2. Evaluate Microsoft's marketing approach to the US market. What changes, if any, would you make in the strategy for the US market?

(*continued*)

3. Evaluate Microsoft's management and staffing for the American market. What changes, if any, would you make?
4. What significance, if any, does Microsoft's experience in the US have for its approach to the rest of the world?

QUESTIONS FOR DISCUSSION

1. What are the differences in the competitive environment for international marketing and domestic business?
2. Discuss the evolution of international marketing in companies.
3. What are the reasons behind more companies starting with an international focus in India?
4. Discus international vertical integration.
5. Discuss political motivations of FDIs.
6. Discuss the gains of FDIs.
7. Discuss exchange rates.
8. Discuss the terms spot rate, forward rate, settlement, inter-bank market and transaction.
9. Discuss the term arbitrage.

5 International Competitive Advantage and Buyer's Profile

AIMS AND OUTCOMES OF THE CHAPTER

Business with different countries depends on the in-depth knowledge a company has of the business and the competitive environment prevailing in the host countries. This chapter provides students with an understanding of the various factors that make up the business environment. Understanding these factors helps companies gain a foothold in the market. With the right strategies they can not only survive but also take the leadership position once they have gained a competitive advantage.

This chapter also discusses the international buyer's profile. At different times each member of the world society is a buyer. And as buyers, people want to be known as sane, intelligent buyers. A buyer's skills come from an innate selfishness that when we are spending money we should get our money's worth. The term value for money is born out of this desire. To prove the rule, there are exceptions like people buying beyond their means when they have to impress somebody, like friends or fiancées. It is said that no one buys a product. They buy the benefits that they derive from the product. If the benefits outweigh the cost the buyers have paid then they have received value for money. Students will acquire an understanding of a customer's buying motivation in the international arena through this chapter.

INTERNATIONAL COMPETITIVE ADVANTAGE

Multinational corporations (MNCs) operate in several countries, which have different political systems, social milieus and levels of development. They earn profits in several currencies. Some can be repatriated in the home currency while in some cases the MNCs have to spend at least part of their profits in the host country. International firms operate in one or two host countries from the home base; they may have a sales office or an agent in the host countries. Firms with a global perspective operating in several countries with investments in marketing, production and even research and development can be considered as true MNCs. They view the globe as their market place and target countries one after the other on the basis of priority, which is decided on the basis of the following factors:

1. Geographic proximity.
2. Political alignments.
3. Economic zones and economic forces.
4. Product demand (without any changes in the product specifications).
5. Technological advantage.
6. Price advantage due to economies of scale.
7. Firms have at least 20 per cent of their assets overseas.
8. Overseas sales and business account for about 30–40 per cent of the firm's turnover.
9. Overseas factories could be just assembly plants or full-scale manufacturing units.
10. Overseas operations may be managed by host-country personnel or even third-country managers. Initially the top management stays with the home-country personnel.
11. International business starts as an offshoot of business in the home country and then it moves across as an integrated part of the firm's operations.
12. Products like retail banking are dovetailed to meet the specific needs of the host country, while cars and electronic products stay the same globally.

Countries like the US have been advocating free enterprise and no-barrier business across the globe. Consolidating this thought and still focusing on national interests, several trade zones have emerged in the world. MNCs are ready to take advantage of these zones and yet go beyond them to individual countries where they find a comparable advantage.

In the seventeenth century, Adam Smith propounded the theory of absolute advantage of nations in business. According to Smith, a country had an absolute advantage compared to other countries when it could produce a certain product better than and at a lower cost as compared to other countries. He advised that countries should manufacture only those products where they have an absolute advantage. Today, even if a country does not have an absolute advantage, it can specialise in some products to gain competitive advantage in the international market. This can be gained through availability of raw materials, low-cost labour, a good production base for achieving economies of scale, technology and/or patents in their favour. More than anything else it is the will to go global, the mindset, which spurs firms into becoming MNCs, that is required to gain an absolute advantage. Given next are the factors that add to the competitive advantage of firms:

1. Labour cost, infrastructure, availability of raw materials.
2. Product demand in the home country. If the demand is large and the customers are discerning with regard to product quality, the firm could have the advantage of low-cost production having

achieved the economies of scale. It would also have a good, consistently high-quality product and such a firm can create customer satisfaction in other countries as well.
3. The home country's trained manpower, technology base and patents help firms in the overseas markets.
4. Effective and efficient policies and strategies, which are conducive to a firm's international ventures.

Firms take the route to global business via the basic competitive advantage of technology, raw material availability and trained manpower. Next, firms with innovative products, which have found a good market in the home country, consider that they can be successful overseas as well. Firms, which have made considerable investments, plan overseas business to fully utilise the investment so that they can amortise the investment over large volume business, which may not be possible in the home country. Finally, once a firm becomes cash rich through international trade it plans venturing overseas through large-scale investments in manufacturing and marketing in the host countries.

Firms need to consider the following issues as they plan overseas business:

1. The host country's economic development, per capita income, gross domestic product (GDP) futures and fiscal policies.
2. The host country's unemployment rates.
3. Currency values.
4. Wage levels.
5. Nature of competition.
6. Influence of regional pacts and free trade zones.
7. The host country's form of government and its stability.
8. Taxation levels.
9. Political ideology.
10. Money supply and interest rates.
11. Laws regarding foreign investments.
12. Trade regulations.
13. The host country's government's attitude towards foreign firms.
14. Level of protection to local firms.
15. Technology import rules.
16. Power availability and costs.
17. Infrastructure like telecommunications, roads and transport systems.
18. Social systems, values, languages, demographics and lifestyle.
19. Attitude towards foreigners.

Before considering business options in other countries, this information must be gathered from a known, reliable source.

A competitive advantage scan is done along the following lines:

1. High brand equity worldwide, at least in the region the firm wants to start its business.
2. Economy of scale in manufacturing.
3. Technological advantage through break-throughs and international patents.
4. Efficient market research capability in the host country to understand the business opportunities available there.

5. A product, like the Mercedes car, which sells by itself, just by virtue of its name.
6. Strong international management, especially the top man, who can make a big difference just by his personal knowledge of the host country, its market, buying habits of the customers and the nuances of the local language.

Once a firm knows it has a competitive advantage in another country and its market is growing, it should invest in that country and grow. In case the market is growing and the firm does not have a competitive advantage, it should look for a niche market, find a joint venture partner or divest. In a country where the market is not growing and the firm does not have any advantage, it should organise licensed production or divest after harvesting. In the event of having middling advantage in a mildly attractive market, the firm should plan selective market segments.

Selecting a Joint Venture Partner

When firms go overseas, they are new to the host country, its financial status, its social and cultural milieu, its political outlook and they find it useful to have a local partner who knows the country well and who can steer the firm through the initial problems. Many firms have found that local partners have not been able to provide the kind of assistance they were looking for and the partnership did not flourish. Firms should not be in a hurry to find partners. They should join hands only with like-minded firms, who share the same aspirations, have similar goals and who would have an equal stake in a joint venture.

A truly multinational firm has the following attributes:

1. Personnel selection is on a worldwide basis. It has managers of the home country working with managers from a third country in the host country.
2. The research and development (R&D) department has wings in many countries with real-time coordination; they may be working on several parts of one project or several separate projects.
3. Sourcing of finance is not limited to the home country and host country alone, but shares are floated in several countries.
4. The manufacturing base is spread across several countries.
5. Products are designed for global acceptance.
6. The firm's structure is a matrix or a mixed structure combining functions and a Strategic Business Unit (SBU), with the matrix taking product range, functions and geographic considerations into account.

Multinational Corporation Management

The management style in host countries vary quite a bit ranging from totally authoritarian to a high level of delegation of authority. Firms in countries like Malaysia and France are content to be ruled by managers. Some countries like Greece and Japan want clear personnel policies about recruitment, promotions and stability. Firms in countries like the US and Canada want individual authority, delegation and accountability.

Most MNCs employ qualified and trained persons of the host country to man the second level of the management ladder, keeping the top positions for its own people. However, after the initial start up period, the expatriates tend to become a heavy burden on the firm as besides getting overseas salaries and home travel allowance, they are paid in the home country for maintaining their families. In case the families move with them, then the expenses mount even further. Besides, the firm may also have to pay the local income tax on behalf of the expatriates.

In order to avoid these problems, firms like Unilever and IBM employ 95 per cent of their staff from the host country. These firms have accumulated huge amounts of experience as MNCs. The governments of several countries insist that MNCs must provide employment to the local people. These MNCs start training and orientation programmes to bring the locals into the mainstream of the home firm. The locals, being more attuned to the socio-culture ambience of the country, are able to help the firm in planning customer communications better. Local managers can become a hindrance when it comes to global thinking as they are concerned only about their country. A sound combination of local and home-country managers is found to be most useful. The trust-building exercise with the locals takes time, which can become a negative factor if the firm wants to start rolling at full speed quickly. Daewoo Motors in India had some Indians in senior positions but they were never part of the key decisions taken by the Koreans. The end results are there for all to see.

Firms can consider adopting a global approach by filling key positions with the most suited persons from around the world. European firms have adopted this principle; a Swiss firm had an Austrian director in Singapore. While this could prove to be expensive, if a firm finds the right person, who knows the market, the advantages could offset the extra expense. Firms looking for a person for their international operations look for someone who is sensitive to new cultural nuances, adaptable enough to accept changes and the resultant challenges, skilled to operate with a set of international team members, besides being strategically alive to the changing business environment the world over.

Management of a host firm/subsidiary away from the home country has become relatively easy with faster telecommunications, computer networking and emails, as also the faster movement of people and goods. The daily analysis of sales, payments received and made, and changes in the business environments can be made without any time lag. Financial standings can be known by comparing the actual expenses with the budgeted figure, the return on investment (ROI) with historical figures. However, the host country profit margins for the company get affected by the inflation rate as well as changes in taxation rates.

Developing countries like India can find the entry of MNCs a double-edged weapon; on one hand, MNCs bring in technology, finance and management expertise; on the other, they also pose a threat to the local industry. Repatriation of profits in foreign currency affects the host country's economy to a large degree (it is only a relative term as the MNCs bring in finance in foreign exchange only).

An MNC has business spread in several countries and investments, production facilities, marketing and procurement functions in many parts of the world. When multinational corporations enter a new country, they initially try to adapt to the host country's way of product demand, for example, Hindustan Unilever Limited (HUL). Only when they are well established, do they bring in their universally accepted products. The management needs to have international management skills as also the mindset for operating globally. Firms look for international competitive advantage beyond human resource, as these are now quite mobile around the globe. Firms that copy the product, the 'me too' people, who with a little expertise can bring a better product than the original, can dilute a firm's technological advantage. Competitive advantage can be gained by proper strategic planning and execution and by providing uniquely excellent service, which cannot be copied by the competition. Regular monitoring of the general business and competitive environment, the host country's wage plans, tax laws, its rules about profit repatriation, study of free trade zones, can all provide competitive advantage to a firm. Differentiated products, economies of scale of manufacture, technological edge and a top-quality business team add to the competitive advantage of firms.

INTERNATIONAL BUYER'S PROFILE

At different times, each member of the world society is a buyer. And as a buyer people want to be known as sane, intelligent buyers. A buyer's skills come from an innate selfishness that when we are spending money we should get our money's worth. The term value for money is born out of this desire. To prove the rule, there are exceptions like people buying beyond their means when they want to impress somebody, like friends or fiancées. It is said that no one buys a product; they buy the benefits, which they derive from the product. If the benefits outweigh the cost the buyers have paid then they have received value for money. Let us define customer value as follows:

1. Total customer value: The sum total of all the benefits the customer is likely to derive from the product.
2. Total customer cost: The sum of money the customer is to spend while selecting, buying, using and disposing off the product.
3. A product's perceived value: The difference between total customer value and total customer cost represents the customer's idea of the usefulness of the product.

Product purchase decisions are taken on the basis of the following:

1. Product brand image/brand equity.
2. Buyer's usage value.
3. Value of the service provided through the product.
4. Intrinsic value of the product.

These add up to total customer value of the product.

The other side of the decision to buy comes from the following:

1. Product price.
2. Product search expense.
3. Decision time delay costs.
4. Cost while using the product.

These factors add up to total customer costs for the purchase of the product.

In case the buyer and the user are two different persons, there is likelihood of delays or wrong purchases. Personal choice of the buyer may be based on his own personal experience with the product or he may have some relationship with the seller. In such events, the sellers do well to establish relationship with the buyers and the users as well.

To reiterate, people do not buy products. They buy the benefits that the product offers them. Therefore the after-purchase value of the product assumes great importance as only those products with high after-purchase value will be purchased repeatedly, which brings us to the point of customer satisfaction arising from the use of the product, which is measured as follows:

1. Actual benefit derived as compared to the benefit perception the customer had before the product was purchased.
2. Benefits derived from the product as compared to those obtained from a competitive product.
3. Benefits get enlarged if the product costs are in consonance with the perceived benefits and in such cases the customers derive a sense of pride besides satisfaction, which in today's marketing terminology is called customer delight.
4. Customer delight also comes from being known as an intelligent buyer in one's peer group.

Product innovation and product differentiation leads the buyers into the delight zone. As the competition is doing exactly the same thing, that is, trying to win over the customers in the same segment, the firm that remains proactive to the perceived and even intangible needs of the customers, is the winner. In order to achieve this, firms must be in the market research mode all the time, trying to fathom the customer, his mindset, likes and dislikes and his perception of product benefits. Product differentiation should, however, be made at those extra costs which can be borne by the market. There is no point in, as an extreme example, using gold wire in television sets instead of copper wire, because except for increasing the cost it will not improve the quality or even the aesthetics of the product.

Sustainable Competitive Advantage

In order to achieve sustainable competitive advantage, a firm has to constantly upgrade its product value to the customer and product delivery systems. International buyer's loyalty can never be taken for granted and therefore to ensure it the company takes the following actions:

1. Differentiating the product, price and distribution system and advertising promotion.
2. Communicating the differentiation to the customer—'we know we are good, you should know it too'.

In the washing powder segment, the players are in a pitched battle with one another with each one making tall claims of providing the whitest wash. They make use of television demonstrations and make innovative use of the media to help achieve trial-use by the buyer. However, it is the real value of the product, which aims for re-buys by the purchasers.

In order to increase its market share, a firm has to take its competitor's customers. It is of use to know the value the competitor's customers place on competitive products. Market surveys are conducted by firms to know exactly the perception of their customers about the value of the product they have purchased as well as that of competitor products purchased by them. The results of the surveys assist in product differentiation, communication and service providing plans. These help the firms to keep upgrading the customer value of the products.

Satisfaction Survey

International marketing firms need to know the satisfaction or dissatisfaction factors of the products with their existing and past customers. The following methods are used for this purpose:

1. Personal interviews: Personal interviews are conducted with those customers who were using the product earlier and have now stopped using the same, either because they have switched to the competition or have stopped using the product altogether. These interviews give an insight about the reasons and failure on the part of the firm in providing satisfaction. These apparent post-mortems help rebuild the marketing strategies by improving service standards, terms of business like payment terms and delivery systems.
2. Surprise customers: Firms can send some random customers, who give correct feedback about the service provided and customer care provided by the selling team. Such ghost customers are part of many hotel chains which are interested to know the behaviour patterns of the service team when the top management is not there to watch the team in action.
3. Complaint management: Firms that do not pay attention to the suggestions and complaints made by customers are likely to lose those customers. The top-most authority in the firm should attend to complaints, or at least must be aware of the complaints. Suggestion boxes, complaint or assessment forms to assess the service being provided are available in most hotels and restaurants and they form a vital link between the customers and their satisfaction.
4. Customer complaint and suggestion surveys: One telecom firm in India in the private sector interacts with its customers on a continuous basis in order to understand their varied and increasing demands, their dissatisfaction levels and the firm has been able to find instant remedial measures for the same.
5. Pricing strategies can help in making the customers loyal. A value for money product stays with the customer and helps in making purchase decisions. Price changes, like lowering the price can be helpful in penetrating the market. The inherent danger is the customer's mindset as often a lower price product is considered as having lower value.

Michael Porter's Value Chain

Michael Porter evolved the concept of the value chain, which evaluates the customer value being built in the product through the management process. The value chain looks at the different functional areas of business from the customer's viewpoint and underscores the fact that if the customer is forgotten in any action or activity of the firm, some value to the customer may get lost. Figure 5.1 shows the value chain.

In Figure 5.1, infrastructure, human resources and information are support functions and the rest are primary functions. As can be seen from the matrix given in Figure 5.1, success of the firm depends

Figure 5.1 Value Chain

	A	Infrastructure					
	A	Finance					
	A	Human resource					
	A	Information					
Suppliers ←	B	In bound logistics	Operations	Outbound logistics	Marketing/ sales	Service →	Customers

on the way the activities of each functional area are conducted and coordinated with each other. As an example, if purchasing does not care to order the raw materials in time there will be delay in production and delivery to the customer. If the human resource management gets the wrong kind of person for operations, the quality of products may suffer, which might ultimately affect sales and profitability. If the outbound delivery uses an ineffective transport system there may be delays or even damage to the goods, hampering customer satisfaction. Each activity should be carried out and cared for as it adds value to the customer. If it is not performed well it will take away some value from the customer resulting in loss of the customer to the firm, and competitors are ever ready to grab dissatisfied customers all the time.

Service to a customer is of paramount importance and this is one area, which most firms in India tend to neglect. To a customer, the firm's service is the only visible face of the firm. Therefore the service must represent the firm correctly by involving the customer to the extent possible in the service delivery process showing the finer points like selection of transporters.

Michael Porter's value chain, as stated earlier, has a major drawback inasmuch that it does not render itself to cross-functional analysis in a firm. Cross-functional work processes and teams lend themselves for better understanding on the total customer approach as discussed next:

1. Defining new product: Firms keep bringing new products in the market. New products that are brought out based on an understanding of the market through marketing research have a better chance of success. The activities involved in defining new products include, besides marketing research, technology through research and development, or purchase of technology (in some cases through reverse engineering, if it is not illegal).
2. Production process: This includes purchasing, inventory management of raw material, components, semi-finished goods and finished goods with the just in time (JIT) technique for keeping current assets to a minimum and quality management with total quality management (TQM).
3. Marketing and servicing the customers: This includes continuous market research, management of the distribution channels, advertising and sales promotion. The process starts with getting the purchase order to supplying the goods, billing them and finally getting paid for the supply. Next, the same order-to-payment cycle restarts.
4. Service: The importance of service to the customer can never be overemphasised as only the service provides a firm with a sustainable competitive advantage as it cannot be easily copied.

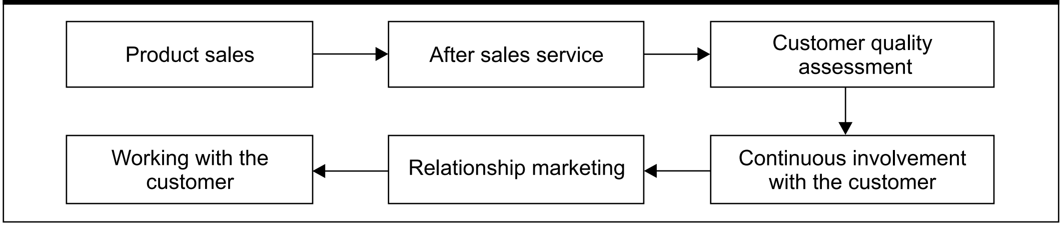
Firms strive for profitable sales and growth. These come from customers who become loyal to the firm due to the satisfaction or delight they get from the product usage. Loyal customers normally buy more, accept new products from the firm, become spokespersons for the firm and take up an advisory role in a firm's operations, like new promotional plans, new advertising campaigns and some customers can be the part of an advisory panel or focus group with the firm.

Understanding customer satisfaction for profiling the customer is therefore an absolute *must* in these days of severe international competition. For firms to survive, it is vital to provide for the speedy redress of complaints, removal of the cause of complaints and maintaining statistics about complaints. Customers who are loyal to the firm must be retained as, over a period of time, the firm's selling cost on such customers reduce as lots of activities become routine; newsletters and direct mail promotional offers can be sent without having to bother about finding where the new customers are. They help the firm with word-of-mouth publicity and help it get more customers. A lost customer can become a major liability if he chooses to vilify the firm. Firms need to interview these lost customers and even if they become non-buyers of the firm's products, the firm should make sure that they should remain friendly or at least neutral with respect to the firm.

Selling in the Twentieth Century

The process of selling of the early twentieth century has given way to relationship marketing of today as can be seen in Figure 5.2.

Figure 5.2 Selling in the Twentieth Century



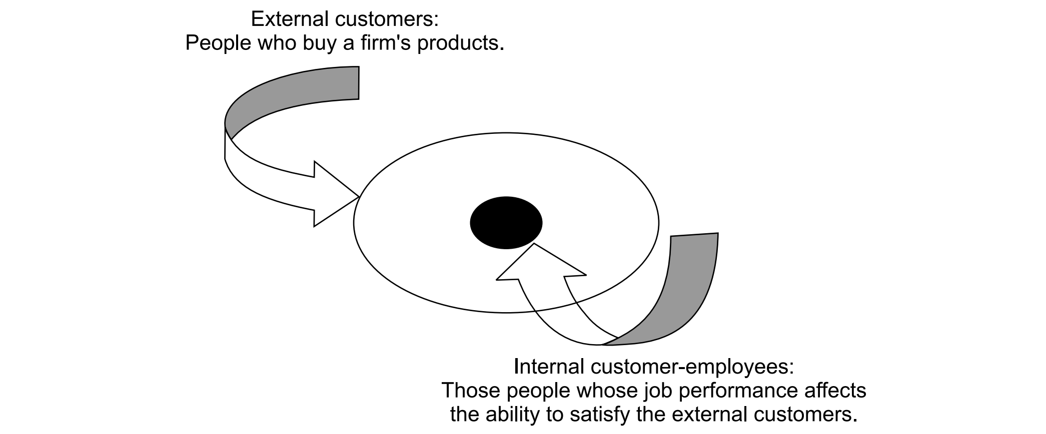
In the beginning of the twentieth century, there was hardly any competition and sellers had to just place their product in the market and it was sold. Then came the 1950s and products, which needed service, were provided with after-sales service through service engineers employed by the firm. They also demonstrated the working of the product, if it was required, informed the buyer of ways to optimise the use of the product and methods of possible savings through the use of the product like lower down time. In the third phase, in the second half of the twentieth century, customers started becoming quality conscious and firms started quality control programmes in their manufacturing operations. From just testing the quality of the final product, firms started checking the quality of the raw materials and components and the quality of sub-assemblies inside the factories. In the next phase, the customer became the focus of marketers and the products had to meet the expectation levels of the customer. The seller made phone calls after the sale was made to ask about the quality assessment and ease in usage of the product. However, as most products had little or no competition, manufacturers were, in fact, giving only lip service to improving product quality. A classic example is the Ambassador car. A new model of Ambassador was introduced with only a minor change—ashtrays on the back door. After a few years, gradually the ashtrays were removed. They were again reintroduced in the newer model. This game was obviously known to the customers but as they had little option, they had to buy the car. Only, some bought the Fiat, the only other option.

Relationship marketing is the new mantra of marketing today. It works well only when the seller is able to overwhelm the customer with so much importance that he just cannot think of going for a competitive product. Newsletters, new product information, samples for trial, invitations to cultural activities and other such tools go a long way in building relationships.

Relationship Marketing

Relationship marketing helps in establishing and maintaining long-term satisfying relations with both internal and external customers as well as suppliers (see Figure 5.3).

Figure 5.3 External and Internal Customers



The relationship between the seller and the customer does not end once the sale has been made. The seller continues to provide engineering support and maintenance support to the buyer to keep reassuring about the benefits he is going to derive from the use of the product. This is especially true in the case of industrial products like power plants and air-conditioning units.

A proactive approach with the customer always helps to develop a better understanding and increases the product image in relationship marketing. In this relation, Daewoo Electronics has made a successful attempt by making it a practice to regularly pay visits to the customers and train them on product usage. This has reduced the problem of customer complaints as most of the complaints come from a lack of awareness on how to use a product especially in the case of consumer durables and industrial goods. Pre-launch trial of drugs is yet another example of being proactive in influencing customers.

Summarising this, relationship marketing seems to possess the following characteristics:

R — Reliability
E — Empathy towards stakeholders
L — Learning consumer behaviour
A — Assurance to customers
T — Technological advancement
I — Interaction with stakeholders
O — Objectives of marketing
N — Networking
S — Service
H — Higher growth
I — Innovation
P — Passion

A seller's profitability comes from the profitability of his customers. An oil company (ESSO) advertised 'Use our lubricating oils and increase your machinery life by 20 per cent. Additionally, servicing downtime gets reduced by 10 per cent. The total saving for a machinery of million rupees would be ten thousand rupees per annum.' (The best way is to actually calculate and give the savings in figures along with the calculations, which will make the offer look authentic to the buyers.)

Consumer behaviour can be defined as actions of consumers and their motives for those actions of making purchases. The study of consumer behaviour is the study of how consumers spend time, money and effort on consumption-related items. It includes what they buy, why they buy, when they buy, where they buy, how often they buy and how often they use it?

We are all consumers and we behave in different ways in the market place, sometimes logically and at other times irrationally. The study of consumer behaviour helps to predict, with a high degree of accuracy, how a particular person will behave under certain circumstances.

The main marketing mix factors—the famous 4Ps, namely, product, price, placement and promotion—can provide stimulus to the buyers. We have seen in our lives how a particular product can just by being in the market make us buy it. Listed next are the influencing factors (these will be discussed in detail later).

SOCIAL FACTORS

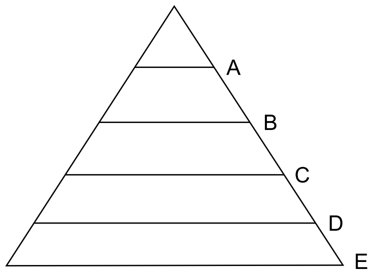
1. Reference groups: They are the community leaders, religious gurus, professors, counsellors and others.
2. Family: This includes parents, children, grandparents, siblings, uncles and aunts.
3. Roles and structures: The role of the head of the household, the breadwinner in the family, which could be a new one, just husband and wife, or with small children, teenage children, or grown up children who have left the household need to be defined in the buying process.
4. Age and stage in life cycle: With better medical facilities, the average age of Indians has greatly increased. There is a large group of senior citizens. With a lower rate of child mortality, the population of teens and preteens has increased significantly giving rise to a multitude of needs and products to satisfy the same.
5. Occupation and economic circumstances: The standards of living of people differ according to their income and their occupation. A white-collared worker would like to project an image of a well-dressed person as against a small businessman, who would not be bothered with appearances.
6. Lifestyle and psychographics: These factors are used to understand the mindsets of people and for measuring and categorising lifestyles.
7. Good resource people: Those with financial backing.
   (*a*) Actualisers: Those who have achieved their desires, who have become *somebody***.**
   (*b*) Fulfilled: Those who are satisfied.
   (*c*) Achievers: These are people who have targeted their dreams and fulfilled them.
   (*d*) Experiencers: These are those people who have gone through struggles and come out successful.
8. Low resource people: Those with low finances.
   (*a*) Believers: They are optimists who feel their time will come soon.
   (*b*) Strivers: They are hopeful about their future.
   (*c*) Makers: These are busy people who are into the nitty-gritty of making a success of their lives.
   (*d*) Strugglers: They are people who are not so optimistic about their future.

PERSONALITY AND SELF CONCEPT

People have physiological needs like the need for food, clothing, shelter and psychological needs like the need for love, esteem and self-actualisation. Maslow propounded the theory that people's needs follow a hierarchy in terms of importance of needs and their place in a person's life (see Figure 5.4).

Figure 5.4 Maslow's Hierarchy of Needs

Self-actualisation—A
Esteem—B
Social status—C
Safety—D
Physiological needs—E



NEED SATISFACTION

Perception: Select, organise and interpret information to obtain a meaningful understanding for selecting and deciding in favour of a product.
Attitudes and beliefs: Attitudes are a person's evaluation of emotional feelings and tendencies for action towards some object or an idea.

Buying Roles

Buying roles can be described as follows:

1. Initiator: The person who puts forward the idea of obtaining a certain product.
2. Influencer: This is the person who gives his opinion about the suitability of the product.
3. Decider: This is a person who has the authority to decide whether a product should be purchased or not.
4. Buyer: This is the person who places the order for the product.
5. User: This is the person who puts the product to use.

Thus, we can develop the complete buyer behaviour as given next:

1. Believe in the product.
2. Develop attitudes.
3. Make thoughtful choice.

Habitual Buying Behaviour

Habitual buying behaviour can be understood through Figure 5.5:

Figure 5.5 Habitual Buying Behaviour

Major difference in brands	High involvement	Low involvement
	Complex buying behaviour	Variety-seeking buying behaviour
Less difference in brands	Dissonance reducing buying behaviour	Habitual buying behaviour

When, for example the difference in brands is large, like in cars, and the involvement in buying is also more, the buying process becomes complex. Conversely, if the brand difference is low, like in shampoos, and purchase involvement is low, most purchases are done on the basis of habit only.

The different stages of the buying decision process are:

1. Problem recognition, which is defined by obvious or inherent needs of the consumer.
2. Information search.
3. Evaluation of alternatives.
4. Purchase decision.
5. Post-purchase behaviour.

Sources of information could be:

1. Personal: Family, friends, neighbours.
2. Commercial: Advertisements, salespersons, dealers, packages, displays.
3. Public sources: Mass media, consumer rating organisations.
4. Experiment: Handling the product, experiments, using samples of products like shampoo sachets.

The evaluation of alternatives can be demonstrated by the following example:

Problem: Purchasing a computer.

Decision-making criteria are as follows:

1. Price
2. Manufacture/model
3. Support
4. Repair record
5. Warranties
6. Reliability

Weight given to the criteria by the consumer:

1. Price—70
2. Manufacture/model—60
3. Support—40
4. Repair record—75
5. Warranties—50
6. Reliability—70
7. Alternatives: Wipro, LG, HCL, Compaq, IBM, local assembly

Now for each of these six computer manufacturers put weight on the criteria as has been done for the first:

1. Wipro: Price—30, manufacture/model—50, support—40, repair record—60, warranty—40, reliability—60.

As can be seen, weight given to price is inversely proportional to price. In other words, the higher the price, the lower the weight given to it.

Select the one where the numbers add up to the highest. Then implement the decision and make the purchase.

Post-purchase behaviour comes from satisfaction, use and disposal after use.

Buying behaviour is determined by ethics in marketing, which are required to sell products and give value for money to the customers. In other words, non-ethical behaviour can lead to de-motivation of buyers since once the seller is caught cheating by the buyer, the latter would stop buying from the former. Non-standard products, defective goods, prices that give the wrong impression to buyers (hidden charges like transport, taxes and duties that are not mentioned in the beginning), and short packing are some areas of unethical practice. Such deals can give only short-term benefits and in the long run even if the law does not catch up, the customers eschew purchasing such goods and dealing with such marketers. In the bargain, even good products marketed by that firm are viewed as suspect. A few examples will clarify the issue:

1. Food items mixed with unhygienic products like non-food grade preservatives.
2. Fake branded products.
3. Products like video and audio tapes which are pirated.
4. Quoting different prices to customers for standard products, unless quantity discounts are being offered.
5. Advertising a hotel as a five-star one when it does not have even three-star facilities.
6. Advertising contraband goods like liquor and drugs.
7. Cheating in annual sales where the prices are jacked up from original so that the 'discounted' price is the same as the original price.

Incorrect or misleading advertising should be firmly avoided. It can cause untold harm including legal action, which has become one of the deterrents of such advertisements today.

Market Segmentation

Markets are such heterogeneous places that unless we get to understand each part of it we remain ignorant of the market. At one end of the spectrum we have people buying Mercedes cars while there are also people in the market for low-cost bicycles as means of transport. Marketers of Mercedes communicate with the rich, elitist class to sell their product. People who are likely to purchase a Mercedes reside in certain sections of the town, visit particular clubs, read particular business magazines like *Business India*, *Business Today* and *India Today*. The person who wishes to purchase a low-cost bicycle is likely to go to cinema halls for low-cost entertainment. Cycle sellers can advertise their products in the form of film clips at movie halls to communicate to their target segment, while the manufacturers of the Mercedes can advertise their product in publications that the elite subscribe to. Both segments would get the right message without too much clutter and in a language understood by them. Therefore, market segmentation helps both—the buyers and the sellers.

Market segmentation is done on the following lines:

1. Geographic factors
2. Demographic factors
3. Psychological factors
4. Socio-cultural factors
5. Use-related factors
6. Benefit segment
7. A combination of some of the factors mentioned here

In India, Tanishq watches have the following segments:

As its price range is Rs 20,000–Rs 125,000, it is the high income, elite and fashionable people who form its market segment. Market communication, advertisement can thus be written in the language easily understood by the segment and placed in the media seen and read by them.

GEOGRAPHIC SEGMENTATION

Each region of India has its own peculiarities in terms of customer needs and therefore consumer behaviour too is different for each area. In each region there are large metro areas, large cities, smaller towns and villages. Urban, semi-urban and rural divide provides another basis for market segmentation.

DEMOGRAPHIC SEGMENTATION

Demographic segmentation is done in terms of age, sex, marital status, income, education and occupation.

Age segment is important as with the growing population of senior citizens and a large teenage group, product needs for these segments are increasing. Healthcare products, vacation time products are needed for elder citizens. Teens need coffee bars, discos and video game parlours.

Income separates people in terms of their buying patterns and product groups. Marketers can decide to cater to one income group or the other, make products needed by them, and then advertise in the media most seen and read by them. Low-cost readymade garments for the low-income segment are best advertised on radio and in the local language press. Likewise Rolex watches for the rich segment can be advertised in business magazines and TV channels such as Star Plus.

There are several products that are sex specific. For example, shaving creams are meant for men while lipsticks are meant for women. The reasons for the use of cosmetics vary by age and marketers can make use of this fact by offering different products for different age groups. It is believed that young girls need cosmetics to make themselves attractive to the opposite sex. Similarly, it is perceived that married women use cosmetics to keep their husbands happy and senior ladies use them to feel young.

EDUCATIONAL AND OCCUPATIONAL SEGMENTATION

Customers who are well-read would buy books of their interest. A professor of management would buy books on management. Similarly, a person's occupation can bring to focus his needs and desires for products. A model, for instance, would go for lifestyle products as well as products for keeping his/her body in the best of shapes.

PSYCHOLOGICAL/PSYCHOGRAPHICS SEGMENTATION

People's needs like shelter, food, safety, affection and self-actualisation make for different segments. These are the hierarchies of needs according to Maslow.

Psychological/psychographic segmentation divides customers around their mindsets. People need ego boosting and certain products like fashion garments, designer watches and accessories make them feel good when they can have their heads in the cloud nine. People can be motivated to buy a car just because they have been selected to test drive it. Today's business executive is extremely busy and his/her involvement in buying daily need products is low. The target customer therefore is the buyer and not the user, who may be the servant or some retired member of the family. The involvement increases with the value of purchase or some personal preference. Please-buy-only-Godrej-Shaving-cream-for-me is a way in which the involvement manifests itself.

SOCIO-CULTURAL SEGMENTATION

Family

Starting out in life, young people are unmarried. They need household goods like cleaning equipment, washing machines, cooking equipment, TV set.

Married couples initially need to go on honeymoon and later-on according to their status and income buy a car, house and soon baby food and diapers. Once the children grow up, music system, books, games and sports equipment are needed. As the children move out of home, the aging parents, now alone again, require healthcare products and medicines.

Society

Social groups originate from parity in income, occupation and education. Lots of purchases, especially of consumer durables, are made because one's neighbours have purchased them. 'Keeping up with the Joneses' is the phrase used to describe this tendency of copying, common in one social segment. Advertising based on targeting one social group becomes easy as the group members speak the same language, understand the same subtleties, the same comic situations and have the same attitudes and beliefs.

Cultural and Sub-cultural Segmentation

Our country boasts of unity in diversity. Cultural differences are quite pronounced as we travel from north to south, east to west. In the north, for instance, when guests come to visit, offering them anything in 3's is considered inauspicious, while in the south it is the done thing. Traditional women keep their heads covered in the north on auspicious occasions while this is not the case in the south.

Sub-cultural segments can be seen as well. The Punjabi and Rajasthani cultures, while both belonging to the north Indian culture, are quite different from one another. Punjabi culture with its exuberant dances, music, extrovert lifestyle, is very different from the Rajasthani culture which is more conservative and traditional, although they also have their own dances and music. Each area in India has a fund of cultural heritage, which drives the segment members to behave in a certain manner. Durga Puja sees Bengali's buying dresses, decoration material and the like.

With global marketing becoming important in India, one has to be aware of the cultural diversity across the world. Simple things like colour are important cultural factors that need to be kept in mind. For example, cycles exported to Iran might be returned if they are not in green—Iran's favourite colour. This subject will be discussed in detail in Chapter 15 ('Advertising and Promotion in International Markets').

SEGMENTATION ON THE BASIS OF USAGE

Imagine a person who buys a cellphone and uses it only to see the number calling him and then goes to the nearest fixed phone to call back. Another person uses cellphone the whole day, making long-distance calls to his foreign clients and collaborators. Or, a person who stays in a five-star hotel only for one day in a year, eats outside the hotel and pays a room rent of about Rs 6,000, as against a person who stays at a five-star hotel at least for a week every month, throws parties and uses the hotel facilities and his yearly bill exceeds Rs 1,000,000. While it is understood that the customer is king, we can now see that while some customers are emperors, others are kings, some are princes and yet others are just buyers. That is why to lure big buyers, firms have special treats for them like frequent flyer programmes offered by many airlines and room upgrades for frequent customers in hotels. It must, however, be kept in mind that today's prince can become tomorrows emperor and hence firms can ill-afford to neglect to provide the best possible service to him.

SITUATION USAGE SEGMENTATION

Situational usage is prevalent for greeting cards, flowers, gift items that are given on occasions like Christmas, Deepavali and Eid. Card makers and gift suppliers focus their advertising efforts towards the customers.

BENEFIT SEGMENTATION

People are looking for benefits all the time, like the calorie-conscious person who wants tasty food with low calories. Insurance agents sell insurance promising life-long benefits. In fact, marketing is based on making customers aware of the benefits the firm's products provide like value for money and/or some unique features.

Advertising: A Means of Communication

Demographic and psychographic analyses guide firms in their advertising communications by making them understand the following:

1. Who are our target markets?
2. What should we tell them?
3. Where this communication should be made?

Media too arranges such research and information so that firms know which media to use for which segment. In India, the Audit Bureau of Circulation (ABC) gives the circulation figures of different publications and an idea of their readership. For TV, research organisations arrange for television rating points (TRPs), which give an area-wise idea of viewership of TV channels and their programmes.

Segmentation and Its Usage in Advertising

In order to ensure effective communication, the target segment should be clearly defined. It should not be too small or too large. It should be growing and should have access to advertising media. Locating and identifying segments is easy for geographic or demographic segments. For identifying psychological/psychographic and user segments, market surveys with properly designed questionnaires and good reliable teams who are aware of the objective and well conversant with the methodology analysis and report writing are needed.

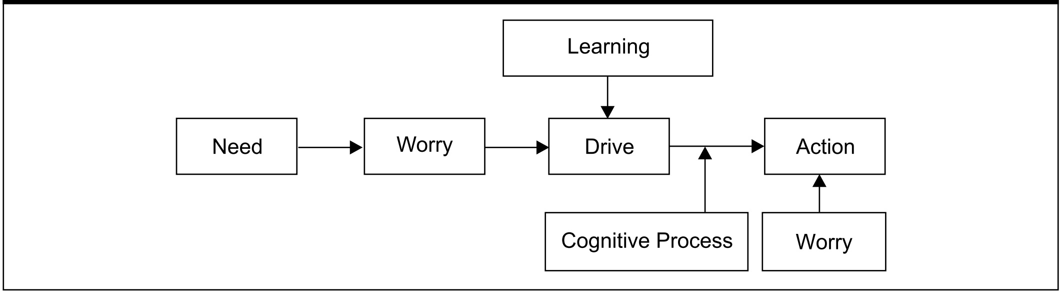
For products like expensive watches, while the segment in a town like Delhi would comprise a few thousand, for Mercedes it may be a few hundred only. The segment interested in a trout safari may be still smaller. The target segment should be stable and increasing. People trying out new brands all the time are unstable buyers and cannot be counted for the segment. Marketers have to communicate to the segment and availability of suitable and economical media becomes a necessity.

Motivation is the inner urge that propels people to act. Seeing and smelling food gets people motivated to eat even when they are not hungry (see Figure 5.6).

When a person needs a product and he is unable to fulfil his need, he suffers till he decides to buy the product and satisfy his need.

People have two types of needs—physiological, that is, requirements of their bodies, and psychological needs of the mind. Food, water, clothing and shelter are the primary physiological

Figure 5.6 Buyer's Motivation



needs, while the needs of power, self-esteem, affection and love are the secondary and psychological ones. House may be the primary need but a bungalow where you can entertain guests becomes psychological secondary need.

Changing Nature of Goals and Needs

When a particular goal or need cannot be fulfilled, a substitute goal emerges. Similarly, after fulfilment a new goal or need arises. In any case, needs can never be fully satisfied. When a person becomes the vice president of a firm, he changes his goal to becoming the president. Product updates and newer technologies help firms to use this *urge* as a springboard for launching innovative products.

Once the basic needs are fulfilled, people want to achieve higher goals. After getting a good house to live in, people want to become community leaders. As the saying goes, 'Nothing succeeds like success'. Success gives extra fillip to people for going to higher-level goals. Failure, on the other hand, makes people redefine their goals, by either lowering their standards or taking a different road altogether.

Goal substitution occurs on non-attainment of goals. If you cannot buy a Honda City car, you buy a Maruti 800. Some people go into a dreamworld devoid of reality. Non-achievement causes people to go into depression, which can result in behavioural changes like sulking and going into a shell, anger, rationalisation of failure that is bad as it makes a person complacent and frustrated.

Behaviour is oriented towards achieving personal goals. People have general types of goals and then they have product-oriented goals. *We will travel to the hills once I purchase my Ford Ikon car* becomes a product- and action-oriented goal. We can see that everyone has rational and emotional motivations, with purely objective or subjective criteria.

Motivational Research

Motivational research is conducted as psychoanalysis of consumer's minds to understand, sometimes not so apparent reasons for their motives. The subconscious mind works for reasons of its own. Some product personality types have been profiled as a result of motivational research as follows:

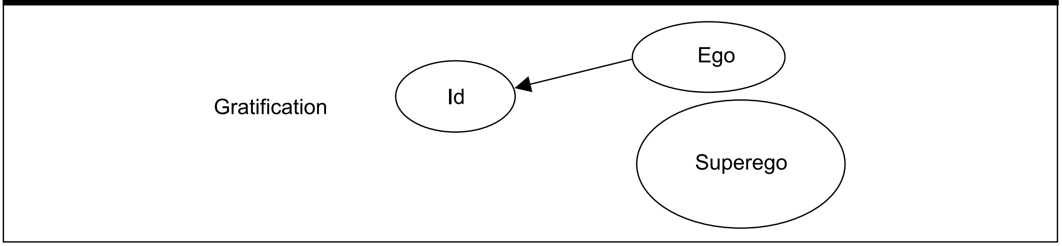
1. Baking: It conveys motherhood, femininity, love and caring; subconsciously the baking process is a substitute for the childbirth process.

2. Ice cream: It is subconsciously associated with love and affection.
3. Home maintenance kit: It defines man and machismo.
4. Beer: It represents active, alive people.

Personality is the sum total of individual traits of character, bearing and behaviour.

It allows us to fine-tune the differences among various people. With effort, people can change their personality; from introverts they can become extroverts, from careless types they can become the caring types. Sigmund Freud developed the psychoanalytical theory of personality. According to Freud, human personality consists of three overlapping areas—id, superego and ego (see Figure 5.7).

Figure 5.7 Id, Ego and Superego



Id is the primitive animal-like instinct, which drives a person's hunger, thirst and sex urges. A lot of advertising uses this animal force to its advantage and that is why in advertisements the female form is used to attract males and vice-versa.

Superego is the mind's control on id, the animal instincts, so that people can live within social norms.

Ego is the balancing force between id and superego, helping people to keep to the right path between id's drive and societal norms.

FREUDIAN THEORY AND BRAND/PRODUCT PERSONALITY

Some products are best represented by a celebrity. Shah Rukh Khan, for instance, can be envisaged as Mr Santro, the brand of car he has advertised successfully. He is also recognised as Shah Rukh *Mayur* Khan due to the strong association between the actor and Mayur Suitings. Customers tend to associate brands with the brand personality. Hence, marketers need to use a personality who can be fully identified with the product. Hritik Roshan promotes Coke and yet, as there have been many personalities who have promoted Coke, it is difficult to identify Hritik Roshan with Coke.

POST-FREUDIAN PERSONALITY THEORIES

Unlike Freud, other social scientists felt that motives cannot be confined to basic and sexual instincts. Social interaction and lifestyle too motivate people to act. According to the post-Freudian theorists, there are four types of personalities as follows:

1. Thinking and sensing types, who are rational, logical, objective and fast decision-makers.
2. Feeling and sensing types, who believe in their own selves, are subjective and they consult others while making decisions.
3. Thinking and intuiting types, who take a broad view, look for a wider range of options and take decisions for the long term.
4. Feeling and intuitive types, who take a broad view. They are people-oriented who take subjective decisions for the long term.

People can be classified in three personality types:

1. Compliant types who seek company, want love and appreciation.
2. Aggressive types who go against others and try to excel to gain admiration.
3. Detached types who remain away from others, want independence from interference and are keen to be solo winners.

Let us discuss consumer materialism and compulsive buying. Materialistic people enjoy buying valuable goods and showing them off, which makes them egocentric and self-centred. They believe that their possessions will project their lifestyle and yet no possession gives them real satisfaction because the more you have the more you want and there is no end to wanting.

Compulsive buying makes people buy things, which either they do not need or cannot afford. Sale offers and mail orders catch those people who are on a buying spree.

Consumers get an image of the product on their mental screen. Marketers have to position their products in the right market segment to ensure that a positive mental image is formed and that it stays. Repetition of advertisements is meant to fix the product on the mind's screen.

Pepsi has been positioned as a drink for the youth and, as youth remains the biggest segment of consumers, Coke targets the youth too. Maruti 800 is positioned as the common man's car while Honda City has the slot of an upper class car. Raymond Suiting is in the top position for the elite while Mayur Suiting is for the middle class.

The perceived price can be high, low or fair. Then there is differential pricing like low-priced air tickets for senior citizens. There are sale prices when heavy discounts are offered, like offers that promise a savings of up to 50 per cent, or promise the customer that they can buy more at a lower price. Such offers can be deceptive, as the correct picture is not given to the consumers. While people feel happy at making purchases and acquiring products, if the price is the same as imagined by the buyer, then it does not give any pleasure. However, if the perceived price turns out to be more than the actual price then the transaction becomes interesting to the buyer. For example, buying a 200 litre refrigerator would normally cost a buyer Rs 14,000. If it costs him just that in the market, then there is no joy for the customer. However, if the purchase price is Rs 13,500, it gives mental satisfaction and pleasure to the buyer.

Most often, especially for consumer goods, the price and quality of a product get associated with each other and reduction in price can create doubts about the reduction in quality of the product. Similarly, product, country, quality and price are perceived by the customers as a package, as can be seen from the following:

1. Made in the USA implies best quality and high price.
2. Made in Germany implies solid in technology, medium price.
3. Made in Japan implies that the product is elegant, not sturdy and its price is quite high.

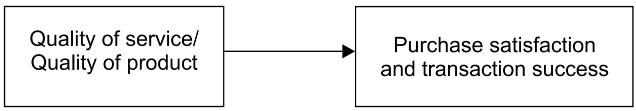
4. Made in Korea implies that the product is almost as good as a similar product made in Japan but at a lower price.
5. Made in India implies low labour cost, low price and inconsistent quality.

This perception is not correct any more but Brand India needs to be strengthened to overcome this perception.

PRICE AND QUALITY RELATIONSHIP

One has to take into account that every product has some service attached to it.

Figure 5.8 Price and Quality Relationship



There are different types of consumers with unique personalities. There are consumers ready to experiment and they buy products in the introductory stage of the product life cycle. Computer notepads, palm-top computers find a good market among this type of personality, who are always ready to innovate and experiment.

Dogmatic types have rigid behaviour patterns. When this type buys a new product it is contrary to their belief. Therefore they have to be on the defensive and are uncomfortable with such purchases. They can be persuaded by authoritative, dramatic and dynamic advertisements, which help them overcome their basic negative attitude. Open-minded consumers take to new products easily. The social types are self-centred people who look for answers within themselves while extroverts are ready and at times eager to find out what their peers and seniors have to say (who says what becomes important and a significant purchase-decision tool).

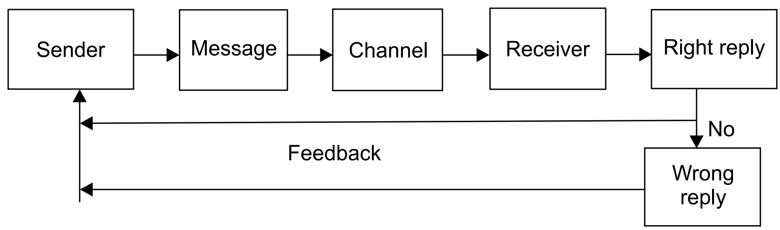
Stimulation levels are important guides for the study of consumer behaviour. Some consumers lead a sedate life and a minimum level of curiosity arousal is enough for them to become interested in the product. Some are hardcore consumers who need to be shaken out of their slumber and for them a heavy dosage of stimulation is needed. They can practically psyche themselves into the purchase mood.

Attitudes are predisposition levels people have towards a product or an idea. These positive or negative attitudes are based on earlier experience, odd remark heard from a known or even unknown person, from persons like salesmen connected to the product, the environment or mood in which the message about the product was given to the consumer.

Attitudes are normally consistent for a particular product. If a thing is not liked then it is not to be purchased. Housewives may not even think of purchasing a twin-drum washing machine if they are aware of the benefits of a single-drum machine. At times attitudes change for reasons like the need to economise or non-availability of the favourite brand in the shop visited and imminence of need. Decisions like 'Let us buy Godrej soap as Lux is not in stock' for FMCG purchases are taken easily as the cost of replacement or repurchase is not heavy, unlike a consumer durable product like a car or TV, which cannot be purchased everyday.

The communication process is planned taking into account the target market segment and the mindset of the people of that segment. One communication model is given in Figure 5.9.

Figure 5.9 Communication Process



In communications, the credibility of the source, or who is saying it, matters a lot. A firm's brand equity can authenticate what is being put in the advertisements. Most firms use endorsers to talk about their products, which make the target segment believe in the product. Wrong endorsers can cause harm to the product or can have no impact rendering the advertisement useless. A top heroine endorsing washing powder may not have any impact as people know that she does not wash her clothes herself. When she endorses a beauty cream, however, people believe her.

The sender or source's credibility is important as it defines how or how much the receiver is going to believe it. Negative impressions, like one must take the information with a pinch of salt, come with unreliable senders of information. Use of endorsers becomes necessary in such cases. The source or sender has his own need for sending the message. How right is that need? For example, many firms resort to having yearly sales of their products. People want to know if it is a genuine sale and if yes, why the firm is selling good products at heavily discounted prices? Is it that they have odd-sized unsold products or a heavy inventory as their export order got cancelled or is it that the discounted prices are in fact the same as the original? Such types of sales lose their impact in no time and give a bad reputation to the seller.

Personal involvement is the key factor that determines the interest the customer is going to have in understanding and correctly interpreting the message. Sachin Tendulkar would in all likelihood want to understand the exact specifications of a cricket bat, while a non-cricket playing TV commentator may just take no notice of the bat.

Moods of people at the time they are receiving the message govern how well they will receive and accept the message. Watching a sad movie on TV would make people less willing to accept positive aspects of a product. It calls for proper selection of media; sitcoms, news bulletins and movie-based programmes are generally viewed on TV with a happy frame of mind.

In order to monitor customer response to a message and its media, pre-testing is done where the advertisement is shown to a select group of the market segment to gauge their reaction and get their feedback. In case of a poor response, corrections in message and media can be made.

After the advertisement has been released, post-testing is done to find out how effectively the advertisement has met its objectives.

PERSUASION STRATEGY

For the message to have the proper impact, selection of the market segment to be catered to, creativity of the advertisement and objectives associated with the communication are key elements of strategy. Some examples are discussed next:

1. Housewife, family income Rs 20,000 per month, urbanite, graduate, would be reading *Femina*, *Cosmopolitan*, *Star Dust*, watching afternoon soap operas like, *Saans*, *Santa Barbara*, *Dynasty*.
2. College student, family income Rs 40,000 per month, would be reading sports, motorcycle and car magazines, listening to FM radio.
3. Achiever, family income Rs 80,000 per month, would be reading business magazines like *Business India*, *Business Today*, national and international financial newspapers and watching news on Star TV.
4. Senior citizen, family income Rs 20,000 per month, would be reading health- and investment-related magazines, watching travel-related TV programmes for enjoying vicarious adventure and thrills.
5. Computer addicts would be surfing the internet and the best media for communicating to them about software updates would be the web.
6. There is always crossover in segments. For instance, for a person with a monthly income of Rs 10,000, a woollen suit worth Rs 5,000 may be out of reach. However, he may buy it at least for his wedding.

Persuasion comes in the form of the personal influence of somebody who counts. In our daily lives we communicate with other people in social, political or business situations. A good communicator listens more than s/he speaks. When in doubt, we seek advice, or sometimes we get advice that is totally unsolicited. In both cases, it is stored in the brain from where it can be retrieved at the time of making a decision on a purchase. We normally go to people whom we consider as more knowledgeable than us. These people are the *opinion leaders*. While buying a set of golf clubs it is best to ask a golf champion rather than a layman for advice. For cameras and films, a professional photographer, not a camera salesperson, would be the best adviser.

Opinion leaders in the international markets must be people or leaders who are well known in the host countries, are experts in their fields and can be trusted to give a correct opinion on issues related to their area of specialisation. Marketers, on the other hand, would invariably provide information only about the positive aspects of their products.

Several times customers seek only information and sometimes they ask for advice. From the following you can distinguish which is an opinion and which, an advice:

1. Which is the best gent's shoe for formal wear?'
   'In my view, Bata is still the best.'
2. How often do you use the vacuum cleaner?
   'I use it once a week to clean the carpet, the curtains, the floors and the ceiling. You could do the same.'
3. Where should I take my Maruti for servicing in Delhi?
   'There is no better place than Competent Motors, my dear.'
4. Where can I get a gift for my girlfriend/boyfriend?
   'Try Giggles in CP and you will not go wrong.'

As can be seen, opinion leaders are mostly 'product' specific. You will not ask your milkman where to buy computer software. In case of doubt, people take a second or even a third opinion until they are satisfied with the opinion. People with set ideas often stop after they have got an opinion, which agrees with their own thinking. Such subjective opinions can be misleading and may result in wrong decisions.

Advertisers extend the theory of opinion leadership in advertising by using the *leaders as product endorsers*.

Self-image is the sum total of how a person thinks about himself and it is a guiding factor in deciding on a purchase along with the wisdom of opinion leaders. 'What type of person am I? What image do I project to outsiders? How do people view my personality?' These all make for self-image. There are several types of self-image:

1. How people view themselves.
2. How they want others to view them.
3. How they would like to be seen in the future.

Self-image and products purchased have an interesting connection. An industrialist buys a Mercedes to project the self-image of a successful person. Actors and actresses want to look good and attractive to their fans and their clothes and make-up is meant to focus on that image. Marketers take advantage of this by using this concept while communicating to them.

Consumer perception is the consumer's view of things including messages and stimuli seen by or focused on him. These perceptions are given or acquired by visual stimulus, like seeing pictures of products in advertisements, hearing about the products from friends and displays as retail shops, point of purchase (POP) display and the visual impact of the product.

To heighten the impact, advertisers use sensational gimmicks including adventure sports, pretty women as sex objects to make an impact. The level of minimum stimulation, which can attract a person, is called the *threshold level*. For two different stimuli, the minimum difference, which becomes noticeable, is known as *just noticeable difference* (JND).

According to Weber's Law, an approximate accurate generalisation in psychology, the smallest change in intensity of a stimulus is capable of being perceived as proportional to the intensity of the original stimulus.

For example, car polish makers might add some ingredients in the product that makes the lustre last for a week as compared to a competitive product where the shine lasts for four days. The danger in making it better, to the extent that the shine lasts for a month or even a fortnight, is that it would increase the gap between purchases. Marketers and advertisers use the JND to good use in their product development and advertising strategy.

Subliminal perception considers even below the JND stimulus as psychologists have found that even such stimulus leaves an impression on the subconscious level and while it remains dormant it may manifest itself at the right time when product purchase is being considered. A friend might have said years ago that the best TV set is from Sony. While finalising the purchase decision this bit of information might come as bolt from the blue to one's head and a decision in favour of a Sony TV set might be made.

Hence, the decision-making process is based on the complex nature of human insights, which marketers find ways to stimulate and bring to surface in their favour. Marketing and communicating to the target market segment about a new innovative product calls for sustained efforts of advertising, personal selling and word-of-mouth appreciation of the product for a period of time.

Market-based new products are products that the market considers as new. When Airtel introduced cellular phones in Delhi, they were new to the market and consumers took it as such.

Consumer based new products are the one's which the consumers find totally new.

The *innovative or new product* is seen by the firm as new to it and the firm becomes buoyant about it. The firm ignores the fact that the product may not be new to the market as competitors may already have introduced the same.

Product innovation takes into account the features, which are unique to the product. For example, a refrigerator manufacturer might claim to have a novel door-cooling system, not available in other refrigerators.

Development of the new product can be on a continuous basis or on a one-off basis. The telecom industry has had both types of innovations as can be seen from Table 5.1

Table 5.1 Product Development Process

Discontinuous development	*Dynamic, continuous development*	*Continuous development*
Telephone	Answering machine, voice mail	Auto-dialing facility, memory phones
Pager	Nation-wide paging, two-way paging, sports scores	Message displays, alarm clocks
Fax	Fax modem, mobile fax	Speed dial, delayed dispatches

Consumers look for *relative advantages* in each product. Also the expense of making the change and the product's compatibility with other products that the consumer has also play an important role in the decision to buy new products. For example, a consumer wishing to purchase a modem and a printer must ensure that they are compatible with his computer.

Organisational Buying Behaviour

Organisations or firms involved in manufacturing goods purchase raw materials and components needed in the manufacturing process. They also buy consumables like electricity, water and gas, which are consumed, in the manufacturing process. Such purchases by the firms have the following characteristics:

1. Fewer buyers but large quantity buyers.
2. Close supplier and buyer relationship.
3. Geographic concentration of buyers.
4. Derived demand.
5. Inelastic demand/fluctuating demand.
6. Professional purchasing.
7. Several buying influences.

Firms produce large volumes of products and hence need large quantities of materials. An individual will buy a TV picture tube only as a replacement only if his TV set's picture tube has become defective.

A TV set manufacturer will be buying picture tubes in thousands for putting them in the TV sets. Yet as compared to individual buyers, TV set manufacturers will be far less in number.

In most cases, industries are established near the source of one or two major raw materials needed for manufacture. Hence, most industries are concentrated in that area. Gujarat has lots of cotton, which accounts for the large number of textile mills in that region.

The demand for raw materials is derived from the plan of manufacture of products, which use the material. For example, tyre sales are dependent on the number of cars manufactured in a particular period. For such intermediary products the demand remains inelastic over long periods of time with only marginal changes. However, it could also change dramatically in case the buyers find different usages of the product. This will result in an increase in demand. If the product becomes obsolete, the demand could just disappear, as happens often in the case of fashion garments. Purchase in such cases becomes a professional discipline. Depending on the value in money terms and also in availability terms, the importance is given to purchase decisions.

Buying situations can be classified as follows:

1. First-buy is when a new firm makes the purchases or an old firm tries out a new product.
2. Re-buy takes place when a satisfied buyer buys the product again. This happens when besides the product other factors like the firm's after-sales service, are to the buyer's satisfaction.
3. Modified re-buy is made when the manufacturer accepts the customer's suggestions and the product is suitably modified to suit the firm.
4. New task purchase depends on the launch of new products and is planned accordingly.

The system for buying in an organisation consists of the following people:

1. Initiators: These are the people who place the requirement of the product before the firm's authorities. In most firms they would either be research and development persons or purchase executives.
2. Users: These are the people who define the product with specifications and would ultimately use it. They are the research and development engineers, production engineers and the like.
3. Influencers: These are the people who influence the purchase decision, that is, which brand, model to buy, from which dealer. These could be research and development managers, consultants and the like.
4. Deciders: These are the authorised people who decide on the spending of money for making the purchase. They are of the rank of general managers.
5. Approvers: These are the people with the power of approving the purchase like chief executive officers and managing directors.
6. Gatekeepers: These are those who filter information and see to it that only relevant information reaches the decision-makers about the product. These could be receptionists and purchasing agents.

Consumer behaviour in organisational buying therefore becomes complex, with a number of persons involved in the decision-making process. Therefore unlike in consumer products, the role of advertisement in organisational buying is limited to image-building of the firm and providing detailed information to the buyers about the products.

International Marketing Game 5.1

Plan out the critical success factors associated with a company.

Critical Success Factors

These are the factors, which govern the success of a firm. They are derived from the following:

1. Industry factors, whether it is growing, if yes at what rate.
2. Its position in the market life cycle.
3. The general business environment.
4. Technology updates.
5. Competition.

For a car service centre the following would be the critical success factors:

1. The number of vehicles in the area.
2. Growth rate of the number of vehicles.
3. Is the product just being introduced?
4. Demography of the area.
5. Quality of service being provided.
6. Service equipments at the service centre.
7. Number of trained servicemen.
8. Location of the service centre, does it provide easy ingress and egress.
9. Parking facility.
10. Service timings, 24 hours or less.

Similarly, critical success factors of the company being analysed can be determined.

International Marketing Game 5.2

Students should work out a plan for redefining their product introduction strategy.
At this point it is important to understand a company's balance scorecard as given next.

(*continued*)

Balance Scorecard

To understand the holistic picture of a firm it is important to address four areas, which decide the possibility of successful results in a firm. These are:

1. Customer
2. Finance
3. Operations
4. Organisation

CUSTOMER

A firm works for the customers, earns profits and grows because of them; it needs to know its market share and brand value. A firm's position is determined by its competitive advantage over competition. Firms gain competitive advantage by one or all of the following means:

1. Achieving uniqueness over competition, in the product, price, placement and promotion or in service; provide differentiation, which is appreciated by the customer and which does not jack up the price to an extent not acceptable to the customer. (Providing gold wiring inside a TV set in place of copper wiring is an extreme example of total opportunity loss with product differentiation and high pricing.) Customers look for differentiated product as it gives them satisfaction and ego boosting by making them owners of a product no one else possesses.
2. Low cost of production, which is achieved by economies of scale of manufacture and by experience curve of the workers who improve the productivity over time and reduce production rejections. Lowering the cost should never be at the cost of product quality because it could become counterproductive and the firm might lose the entire market. With lower cost of production, the firm generates cash, which can be utilised in firm's growth or at times of severe price competition in hitting at the competition.
3. Quick response: If a firm meets the requirements of the customers first it gains advantage over other competitive firms.
4. Finance: It is mainly used to determine the profitability of the firm, its growth and the economic value it is adding to itself. Economic value added (EVA) can be seen as the true indicator of a firm's financial health rather than the usual return on investment (ROI).

   Economic value added can be arrived at in the following manner:

   EVA = Profit after tax – (interest on debt + cost of equity capital)

   The cost of equity is calculated by taking the average risk-adjusted rate of return, which the equity or shareholder would get if he invested his money elsewhere. Firms can increase their EVA by getting lower cost capital or by using less capital.
5. Operations: To analyse a firm's operations, the core processes, the product development, demand management and order fulfilment processes must be looked into. Firm's need to see how they can obtain a competitive advantage from these processes.

(*continued*)

Understanding the following areas of a firm are required for organisational analysis:

1. Leadership based on leading by example, motivating personnel rather than ordering them about.
2. Motivation and energy levels of the workmen.
3. Firm's ability to accept change when required.
4. Learning mode of the firm.

QUESTIONS FOR DISCUSSION

1. How do operations in the global context differ from national-level operations?
2. Do countries compete with each other? If yes, how?

6 International Environment for Business, Customer, Competition and Controls

AIMS AND OUTCOMES OF THE CHAPTER

In dealing with different countries it is essential to understand their business environments before embarking on overseas business. There are cultural differences among nations as well as differences in economic levels, besides the political and legal differences. An understanding of these differences would help companies plan their strategies for international marketing. Students will be able to start deciphering the subtle differences between countries.

INTERNATIONAL ENVIRONMENT FOR BUSINESS

Introduction

In dealing with different countries it is essential to understand their business environments before embarking on overseas business. There are cultural differences among nations as well as differences in economic levels, besides political and legal differences. An understanding of these differences would help a company plan its strategies for international marketing.

International companies must take into consideration the host country's consumer behaviour patterns. Each country has its special features, market size and buying habits. Large countries have several societal groupings with specific cultural ethos. Companies need to locate groupings which tend to be more like their home country's groupings. Consumers have their own beliefs, attitudes, perceptions and preferences. Even within a country there are areas of difference. However, the actual size of the difference needs to be understood on a real time and place basis. As these groupings get isolated their culture becomes more uniform.

Culturally equitable groups are formed on the basis of income levels, religion, profession, gender, age, caste and political leanings. These groupings separate the members into different financial statuses as well. Besides, these groupings provide the required classifications on the basis of earning capacity, social standings and esteem in society. Workaholism is caused by social pressures, urge for financial advancement and individual cultural background. Understanding these help companies plan proper marketing strategies in a given country or a specific part thereof. For example, in India, the work-ethic comes from the basic tenets of the Hindu religion that expects persons to work without expecting good results for themselves. The obsession to be known as an achiever, a self-actualised person can force people into performing unbelievable and significantly difficult tasks with fortitude and courage.

Each country has its own reward and income enhancing systems that may be totally at variance with other countries. Occupations offer different norms of income, living standards including individual lifestyles. Communication between people within groups or with members of other groups is on the verbal or even non-verbal levels. These sign languages have their own symbols as the cultural traditions provide the backdrop for such understandings. Companies need to become aware of the cultural nuances of the countries they want to do business with but the degree of information required would depend on the cultural differences with the home country and the level of market penetration the company wants to achieve.

Companies get carried away in foreign countries and they station several of their home-country managers there as they fear that the local managers would not do justice to their efforts and, in fact, may sabotage the same in favour of local companies. However, becoming totally dependent on the local managers is not the answer. Companies should look for the best talents for the job, even if they have to go to a third country to recruit such a person.

Companies tend to adopt practices from more successful economies. However, countries with successful economies could have a totally different culture. It may be a good idea to adopt certain cultural factors of the host country, especially their language. However, no compromise should be made on the basic value system of the home country.

Besides the country's culture, it is essential for companies to know the basis of operating with the host country's government, its financial institutions, environment groups and consumer forums. A country's political system, its political ideology, its religion, or its fundamentalist way of functioning that derives its strength from its religious fervour need to be studied before entering the country.

However, a good political system assures unity and coherence amidst the chaos of differing thought processes.

There are great differences between the political and legal systems of countries, and multinational corporations (MNCs) have to formulate and implement their strategies taking these differences into account. The role of the political system is to be the cohesive force in society. The two opposing systems on the political horizons are democracy, in which people participate in the running of the government, and totalitarianism, where a group of people or even one person wields all the political power. In a democracy, citizens enjoy widespread freedom, especially in the areas of political rights and civil liberties. Different governments have different approaches to business and the stability of governments varies across countries. Managers must have the foresight to influence and respond to government action and any stimuli provided by it. Managers must also learn the ethically correct behaviour and operations for each country they operate in. At times the law may not provide the guidelines in this regard.

There are several types of economies in the world, with many differences between them. These differences affect management decisions in a significant manner. In a market economy, individuals have the power to allocate control and distribute economic resources through their actions. This is not true of planned economies. However, in the twenty-first century, most countries are headed towards market-driven economy and are succeeding in reaching there in varying degrees and these imbalances provide challenges to the international business manager of today. Key factors that influence the decision-making process for MNCs are the host country's economic growth, its policy on privatisation, inflation, balance of payment between countries and external debt.

Countries with high growth rates in their economy are able to exploit these human and natural resources most efficiently. On the other hand, developing nations like India provide large market potential (especially since the markets of the West are saturated with products and largely have replacement markets). These countries are showing strong economic growth. Investing in them would help in further developing the market, notwithstanding the risk factor involved due to political instability in some countries.

Let us discuss economic differences and the ways of dealing with them.

Economic Business Environment

India became independent in 1947 and the government of the day, with Jawahar Lal Nehru as the first prime minister of India, decided that the country would adopt a socialistic pattern of society, with major economic developments to be in the hands of the government. The birth of the public sector undertakings took place with a number of firms like Bharat Heavy Electricals Ltd, Hindustan Machine Tools and Hindustan Steels coming into existence. The private sector was considered to comprise unscrupulous people who wanted to cheat the government and the public. This resulted in the permit/license raj, where the government bureaucracy started doling out favours in return for monetary gains. The public sector suffered from the lack of accountability and undue interference from the political bosses. Bribery and corruption became so rampant that it is today a hydra-like monster, raising its head higher each day.

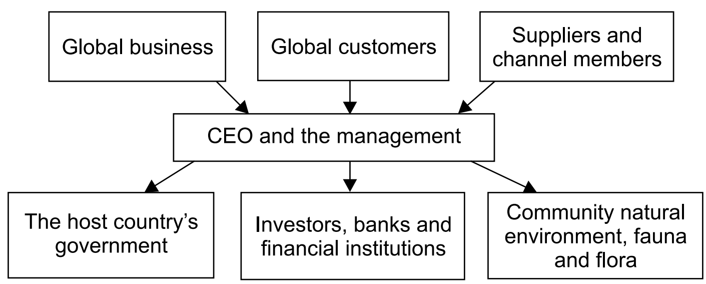
However, the realisation that the country cannot live in isolation came in 1991, and the government had to open up its economy. Internationally, two major changes had taken place. First was the collapse of the USSR, which resulted in the dismantling of communism across most parts of the world. At the same time, the other major communist power, China, started going the capitalistic way in no mean measure. Cuba is the only country that has held on to communism in its entirety. Till the mid-twentieth century, there were two major economic ideologies: the American market-based economy and the state-controlled economy of the communist regimes. And then there was the third type, the mixed economy, which was practised in India among a few other nations. Mixed economy was meant to give equal impetus to government and private enterprise. With this ideology, a new corporate sector was born, the joint sector, where both the private and the government were financiers of the project. Joint sector enterprises were started in order to get government approvals quickly and then run the organisation on the lines of a private venture. However, the conflicting decisions by both the owners and tight government audit never allowed it to flourish as an economic force in the country.

Futuristic Global Marketing

In the first quarter of the twenty-first century, international firms appear to be in disarray, due to the sudden and frequent changes in the general and competitive international environment. What is the mantra that would help firms sustain themselves in the future?

The long-term profit and growth of a firm depends primarily on the knowledge, ability and commitment of its employees and its relationship with investors, customers and other stakeholders. Let us first understand the stakeholders of a firm (see Figure 6.1):

Figure 6.1 Company's Stakeholders



It can be seen that firms that are run in the future in the interest of the wide range of all the stakeholders of the firm are more likely to behave responsibly towards their own interest as well and only that would be their survival kit. Such firms would be carrying on their business according to the laws of the land, laws of the society and adhering to certain ethical values.

Firms need to plan their objectives in two ways, one for commercial success and another for being a good corporate citizen. From the history of really successful firms it can be seen that they have not flaunted any law of the land and have paid their taxes in time and in full. The following points need special attention in this regard:

1. If an individual or a firm is amassing wealth without effort then they will never be able to enjoy the wealth.
2. Playing politics without principles will not take a politician far in the game of politics.

3. People who acquire knowledge and skills without remaining moral usually cannot benefit from their knowledge and skills.

Social and commercial values together reinforce a firm's stability and it leads to greater loyalty towards stakeholders and greater corporate resilience. For example, tobacco companies show young boys and girls enjoying a picnic and smoking cigarettes in their advertisements. Alcohol companies advertise people having a great time with a glass of whiskey. A firm must look at its priorities in the following manner (see Figure 6.2):

Figure 6.2 Priorities in Business for a Firm

Social values + Environmental issues + Commercial issues = Profit and growth

Benefits accrue to a firm from total transparency with regard to social, environmental and ethical issues. One question which keeps coming to people's mind is: 'is it acceptable to use unethical means to achieve perfectly legitimate goals?' the proverbial speed money syndrome. Seeing the number of persons from notable firms behind the bars should be enough deterrent in this regard.

It must be clearly understood that in this century, firms that include their stakeholders in their decision-making process will outperform firms that do not. As a metaphor, stakeholders can be considered the spokes of a wheel, that is the firm, and it can be seen that all the spokes of a wheel are equally important. Alternately, firms looking only at stockholders remain focused on themselves and they generate dysfunctional and unsustainable imbalance in the firm.

Low-cost labour creates disparity in incomes, which can only bring disquiet and trouble to rich nations and the sooner the disparities are removed, the better it is for all firms globally. Rich nations buy from poor nations with low labour cost, thus derailing the situation of their own labour class; with the limited buying power of poor nations, the rich nations cannot sell their high cost products to the poor nations. The first step can be taken when the decisions are taken from the stakeholders' viewpoint along with the view of stockholders.

CAPITALISTIC SOCIETY

A capitalistic society starts with free enterprise as the guiding economic principle of business. Given the fact that there is a quota system in the US for imports and other tariff or specification-based barriers, free enterprise can hardly be considered free. These measures are there not to denounce the system but to place some relevant safeguards against the big becoming bigger and the small remaining small.

The current *stockholder first* free market system is not delivering a just and sustainable future for the next millennium. Some players are winning at the cost of others. Competition should be on a level-playing field where all the players are in agreement. Have you ever seen a normal race with some athletes standing ahead of others? This problem has created a universal crisis of confidence in business as an institution.

Adam Smith in the seventeenth century in his *The Wealth of Nations* said, 'rules of free enterprise are not applied in their pure form in any market economy on earth. The rules of free enterprise completely understate the human and social dimensions.' This appears to be as true today as it was in the seventeenth century.

Globalisation of the economy may bring the best for customers through international competition, but it is not an unmixed blessing. It could kill the local economy, social and cultural norms of the nations and their religious ethos as well. The pub culture, disco mania, which was the waterloo of the Japanese youth in the 1990s, are taking hold of our youth today and see how Japan suffered when those young people took over the reins of business later. One can, but imagine the Indian scene 10 years hence. Can there be unbridled economic prosperity?

The irony of the situation can be seen from the fact that while business espouses free trade it has a tendency to try to gain market dominance and monopoly through mergers and acquisitions, and there is just about nobody to stem the rot, not even the mighty World Trade Organization (WTO), as it is controlled by the firms behind the mergers. The WTO is able to pull up the smaller players in the field: 'Your specifications do not match. Do you know the source of milk you want to sell? Which cow or buffalo gave the milk for the supply on the 1 January 2001, batch 21140 from Jullunder India?'

Four hundred and forty-eight individuals have 40 per cent of the world's wealth. The intention is not to have a closed socialistic economy of the erstwhile USSR, but to find solutions within the free economy framework for a more just economic order. This calls for working out globally accepted business ethics. Pharmacy firms like GlaxoSmith Kline Beecham spend US$ 1 billion each year for the eradication of diseases from the world. Firms have education, health and forestation programmes as a service to the community, one of their stakeholders. Each stakeholder is like the spoke in a wheel and all the spokes are equally important for the wheel to move smoothly.

Free market economy and the connected business organisations only worry about profits. Profit as a motive of a firm is not wrong. However, usually, the CEO of a firm is worried only about the bottom line and that is not so good. A multiple bottom line, which considers the social, environmental and ethical issues, gives a long-term correct profit picture of the firm. Hence, the CEO should work towards the total picture and not just profits if a firm is looking at sustainable profits and growth.

CORPORATE GOVERNANCE

In the context of marketing, a corporation must move forward keeping in view the totality of the stakeholders' interests. It is possible to arrange two type of audits—financial audits and social audits, which include environmental audits. These would automatically change the ethical and morality norms of a firm. Capitalism has encouraged the individualistic pursuit of excellence. This individualism has given them the impetus to strive for self-centred success at the expense of the environment. However, today's managers are increasingly recognising the value of teamwork and encouraging individual excellence while getting everyone to be part of the team. The answer lies in having a happy combination of the two where individuals remain good team members and yet their excellence is rewarded.

Increasingly, stakeholders' value is the overriding obligation of firms. However, Adam Smith's 'invisible hand' has so far failed to create a radical wealth balance. The company that ignores the stakeholders' values or their expectations from the company is invariably going to fail because if, for example, it pollutes the air, water or soil, the ecology of the place will get disturbed, creating huge problems that will sooner or later spoil the company's image and its business as a result. Adam Smith had propounded that a country's absolute advantage is the only requirement in creating wealth. In today's world, this does not happen due to multifarious reasons including political, social and historical factors. Adam Smith did not speak of company's stakeholders at all. While business people are normally good, they work within an economic framework, which rewards them for their short-term and autocratic behaviour. It is the business objective, which needs redefining to include the stakeholders.

Marketing decisions taken without consulting the customer groups and the marketing employees in the field will not be conducive to long-term sustainable growth. In a conventional business, the employees are considered as appendages to the management. The customers are the target markets and once the firm listens to its customers and its employees, the management will be able to take far more accurate decisions.

The firms in business today are for the future generations and they must plan to leave the planet a better place to live in than what it is today. The next generation will reap what the firm is sowing today.

RESOURCE CONSTRAINTS

Chief executive officers, banks, financers and customers are competing for the scarce resources of the planet for a win–lose scenario. However, they end up in a lose–lose situation in terms of sustainability of their operations. The fact that so many firms come and go is ample proof of this theory. In a stakeholder-managed firm, the resources are evenly divided amongst connecting groups to create a win–win situation.

For achieving the win–win situation, the stakeholders, CEOs and employees must participate in the management decisions. Their intents must be aligned at the corporate and individual levels in order to best arrange what the customer wants and provide him with not just satisfaction but delight. This is true for other stakeholders as well. The age-old difference between managers and workers, that of thinkers and doers, must vanish as today's worker is also a thinker and being a person on the spot can give valuable suggestions.

GLOBAL MARKETS

The governance of business must create greater accountability, stakeholders' representation on the board of management, professionalism, ethical standards and knowledge of international markets for obtaining their niche place in the global market.

QUALITY AND QUANTITY AUDIT

Stakeholder management should be equipped for benchmarking performance and for conducting related audit checks with quality indicators and also stakeholders' perceptions. Success will increasingly depend on benchmarking and auditing performance and it will help create an authentic and effective stakeholder corporation.

SAFETY NORMS

Modern self-looking firms abuse health and safety norms, both for their employees and for customers. Stakeholder firms nurture customers by providing them safe products, and the employees by creating a safe working environment. This builds a loyal and profitable partnership with both the stakeholders. Today these have become culturally important element of day-to-day management.

ADVERTISING

Through ubiquitous and manipulative, advertising, in some cases, is the imposition of a firm's cultural ethos not only in one country but also worldwide, which at times undermines the genuine needs of the customers. Customers' participation would, in fact, help them in retaining their market share on a long-term basis.

EMPLOYEES, CUSTOMERS AND SUPPLIERS

If the workplace remains a dangerous place and the customers are the exploited lot, the firm cannot have long-term profit and growth. A sustainable stakeholder corporation proactively creates a caring workplace and fosters dialogical mutually nurturing relationship with the customers. Developing seamless relationship with suppliers and other business partners like financers manifests in market power, operational innovation efficiency and wealth creation. Today, the traditional distance between firms and suppliers as business partners should increasingly disappear. We are in the era of mutual trust and transparency, where the suppliers, manufacturers and retailers are all suppliers of goods as a major part of their operations.

QUALITY

Quality is not some predetermined set of physical criteria only. It is a reflection of products and processes, which satisfy and, ideally, delight the customer's needs and desires. These needs and desires in turn may be economic, social, physiological or psychological. The stakeholder firm expands its web of economic relational intimacy by incorporating in their plans the needs of the customers, suppliers and other business partners.

The management of corporations through political pressure, public relation campaigns and financial power often becomes unscrupulous and selfishly manipulative towards society for their narrow benefits. The management's enlightened self-interest leads to greater chances of bigger profits, sustainable development and good governance in the future.

COMMUNITIES

Firms that maintain the involvement and support of the communities they exist in help create a vibrant local economy from which they inevitably derive benefits, moving beyond the 'big brother's help' syndrome. Social cause systems built in the firm in a transparent manner are the key factors of fully engaging communities. The social causes as exemplified by TISCO are the best form of PR exercises and powerful advertising. The cause should be genuinely altruistic and not just an eyewash.

The more money you make the larger should be the share given to the community and the opposite is also true. Partnerships between communities, the business and the government are going to be the most important drivers of wealth creation, sustainable development and good governance in the future. Firms resist governmental regulations and public opinion and try to reshape communities and societies to improve their bottom line. However, powerful self-interest corrodes the profitability and sustainability of the firm.

THE ENVIRONMENT

The state of our major rivers, mountainsides denuded for timber and limestone have changed the country's climate for the worse. In the Dehradun area, limestone quarrying was carried out till the entire mountain became bald and brown and the Sahasra dhara (thousand springs in the river) went dry. It was only after massive public opinion against it that quarrying was stopped and soon enough the thousand springs burst forth again to make it a beautiful, scenic place again. Chemical plants, paper mills and other factories pollute the water and air continuously, day and night. The environmental initiatives taken by some firms are merely an eye-wash and are dangerous because they cause more harm than good. As corporate citizens they must develop a genuine concern for the state of our country's ecology and that of the planet.

Firms surely benefit from a clean environment. By making a positive contribution towards the environment, they are able to enhance the reputation of the firm with the stakeholders, which leads to improved morale of the employees and greater loyalty from them. Environmentally-friendly initiatives also help companies in saving costs on energy and raw materials and contribute to higher efficiency and productivity. They often lead to greater market opportunities. All these factors contribute to a firm's success.

In conclusion it can be said that the writing is on the wall and the sooner firms notice it the better it is for them. In the twenty-first century, unless the firm is stakeholder savvy, responsive to their views and incorporates them in its decision-making process, they could be seeing a receding bottom line.

Recent Changes in the International Business Environment in Relation to the WTO

Although the path of world trade growth has been uneven in the past few years, the fact that trade continued to expand faster than output is indicative of the increasing openness of national economies. Part of this development is due to the gradual but continued trend towards more liberal trade policies around the world. This is a tribute to the good sense of governments in conducting their trade policies. But credit also goes to the strength of the multilateral rules under the WTO, as well as commitments made under regional trade arrangements. Members of the WTO need to build on these achievements and put in place a comprehensive work programme to strengthen further the multilateral trading system.

National trade policies have continued, by and large, to be outward-oriented, through the implementation of multilateral and regional commitments and new liberalising initiatives—multilateral, regional and autonomous. Since the establishment of the WTO in 1995, members have been implementing staged reductions in bound tariffs, in domestic levels of support and export subsidy levels for agricultural products and lifting non-tariff barriers. Specific measures, targeted on improving market access for least-developed countries in particular, have also been implemented. At the same time, with a view to improving the transparency, stability and openness of their trading environments, a number of WTO members have been changing the procedural aspects of their trade policy regimes, particularly with respect to licensing and customs valuation. These efforts have resulted, without doubt, in more open markets, on the whole.

In agriculture, an important achievement was the conversion of all non-tariff measures to tariff measures and the binding of 100 per cent of all tariffs on agricultural products by all WTO members, improving predictability and security of access. However, the resulting tariffs are high and continue to offer significant protection to the products concerned.

PRODUCT REGULATIONS AND STANDARDS ARE A GROWING ISSUE FOR MARKET ACCESS

Products placed on the markets of WTO members, whether domestic or imported, must comply with the relevant regulations. Such regulations may include sanitary and phytosanitary measures (SPS), which are taken to protect human, animal or plant health, or other product regulations and standards, such as labelling and packaging requirements, to meet public policy objectives. Generally, the entry of imported products is permitted subject to conformity assessment procedures conducted on the territory of the destination market. However, sometimes the measures involve outright bans. The WTO Agreements on Technical Barriers to Trade (TBT) and on Sanitary and Phytosanitary Measures (SPS) recognise and encourage the activities at the international level designed to reduce barriers to trade resulting from products and products-related regulation, in particular, the development of international standards, guidelines and recommendations. Such activities at the international level reduce the potential barriers to exports.

The SPS Agreement encourages the acceptance, by an importing country, of health protection measures that may differ from those of the importing country but that provide an equivalent level of safety. The SPS Committee has identified actions that could assist developing countries that are seeking to have their measures recognised as equivalent.

The SPS and TBT measures are an integral part of the instruments at the disposal of WTO members to meet public policy goals: an objective of the relevant WTO agreements is to ensure that such measures do not create unnecessary obstacles to international trade.

MARKET ACCESS CONDITIONS FOR SERVICES

The services sector plays a dominant role in the economies of most WTO members, both in providing consumer benefits directly, such as through health and education, and as a support to business activities through, for example, finance, communications and transportation. Services are the main sector of activity in high-income countries (both in terms of GDP and employment) and its importance is growing in lower-income countries. The importance of the services sector in the world economy greatly exceeds its share in world trade, the latter being estimated at one-fifth in 2000, in part because these statistics only count cross-border transactions and not services provided through affiliates. Efficiency in the production and trade of services has an important bearing on economic performance and development. Services like transportation and distribution, banking and finance are of critical importance in developing countries (and no less in developed countries), both for the emergence of a competitive manufacturing sector and, more broadly, for social development and poverty reduction. In many of the poorest countries, economic and social development is hampered by the lack of adequate basic infrastructure such as roads, power supply, telecommunications and public transport. Open services trade regimes may therefore entail major benefits by helping poor countries to obtain infrastructural services at internationally competitive prices. For those reasons, similar basic policy prescriptions as in the goods sector apply, such as ensuring that policies encourage rather than impede competition, and that economic operators have some certainty regarding the stability of the policy framework. In addition to domestic benefits from a greater variety and competitive pricing of services, trading partners gain the opportunity for trade-related development, based on services trade.

A key development in the multilateral trading system was the WTO GATTS Agreement, which established a framework of commitments by members to bind, reduce or eliminate impediments to the supply of services by foreign providers; this was followed up by the agreements on basic telecommunications and financial services in 1997. Just as is the case of the policies affecting market access for goods, members have adopted a wide variety of approaches to service-sector liberalisation.

In relation to this, a number of members have pursued privatisation and deregulation of services activities, accelerating the pace of autonomous liberalisation in the services sector and leading to policies in place that are generally more liberal. Since the mid-1990s, a wave of restructuring, rationalisation and privatisation of key services has been undertaken in many developing countries, particularly in the areas of telecommunications, finance and transportation.

Among the underlying factors were the rapid rate of technological change (for example, in telecommunications), financial crises and the need to redress ailing banking sectors, the restructuring of public sectors, supply bottlenecks (public transport, energy) as well as fiscal considerations. Foreign participation has often been encouraged by the WTO to provide capital, transfer of technology and entrepreneurial methods. Faced with the rapid globalisation of markets and technologies and changing consumer demands, service reforms have also been undertaken by developed countries, in particular in 'network industries' (telecommunications, power and gas supply).

The trade policy reviews conducted since the establishment of the WTO in 1995 provide numerous examples of domestic reforms undertaken in both developed and developing countries. For example, the financial crisis in South-east Asia (1997–98) provided for extensive opening to foreign participation in banking (Indonesia, Republic of Korea, Thailand), other financial services (Republic of Korea), telecommunications (Republic of Korea, Thailand) and distribution services (Indonesia). Wide-ranging liberalisation of service sectors had the objective to increase economic efficiency and resilience in key services as well as to attract foreign expertise. The lowering of foreign ownership thresholds in Indonesia, Republic of Korea and Thailand allowed foreign banks to take effective control of ailing domestic institutions and facilitate restructuring. In addition, the lifting of branch restrictions (Indonesia) aimed at creating a level-playing field throughout the country, as foreign institutions had initially been confined to selected urban regions. In Brazil, the structural reform agenda in services covers the privatisation of state-owned banks, the national telephone company and the leasing of port, airports and highways.

Similar to this, many countries in Africa have taken similar steps (Gabon, Kenya and Uganda), seeking foreign strategic partners for major banks or telecommunications companies. Reforms are undertaken on an autonomous basis, often under International Monetary Fund and World Bank-supported programmes.

REGIONAL TRADE AGREEMENTS

The main aim of the WTO is non-discrimination due to which WTO allows members to conclude customs unions and free-trade areas. With virtually all WTO members being partners in at least one regional trade agreement (RTA) and with several being part of two or more, RTAs have become by far the most important element in several trade agreements.

A major development in 2001 was the formal launch of negotiations on a Free-Trade Agreement of the Americas (FTAA), linking partners in North and South America. Other cross-regional trade integration initiatives are also making progress, notably the negotiations on free-trade agreements between the European Union (EU), on the one hand, and Chile and Mercosur, respectively, on the other hand.

Another major development is the rising number of RTAs in Asia, the region with the smallest number of RTAs currently in force, including by Japan, still among the few WTO members not party to one or more RTAs.

Although RTAs may take the form of free-trade areas (FTAs), customs unions (CUs), or agreements leading to the formation of one or the other, free-trade areas are generally more prevalent than CUs. Free-trade areas account for almost 90 per cent of all RTAs.

In Europe, the liberalisation provisions of most of the FTAs between the EU and candidates to accession have been implemented and further liberalisation has been agreed for agricultural products.

A similar process is envisaged for African, Caribbean and Pacific countries. The EU is also looking to forge closer ties with emerging markets in Latin America. In Africa, the regional integration process continues to intensify. Ambitious plans to achieve a FTA among 20 countries in eastern and southern Africa, supported by closer monetary cooperation, are under way.

In Asia, Japan has shifted its long-standing policy of multilateral-only trade liberalisation to sign an FTA with Singapore in 2001.

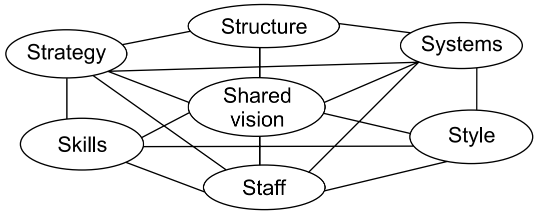
In the rest of the world, regional initiatives have been burgeoning, from the Middle-East to Eastern Europe and South Asia agreement between India and Sri Lanka and the South Asian Association for Regional Cooperation (SAARC), involving both WTO members and non-members.

Still, the evidence regarding the stock of completed RTAs and the large number of RTAs planned or under negotiation is testimony to the basic attraction of such agreements to virtually all WTO members. Regional trade agreements can offer intermediate steps to the broader process of integration into the world economy and, in some cases, achieve faster and deeper liberalisation than is possible at the multilateral level. Some countries argue that liberalisation at the regional level is sometimes a prerequisite to achieving multilateral consensus. Other countries view trade agreements as part of a wider integration projects, aimed at stimulating economic, social and political links in their regions; this is notably the case for small or landlocked African states, which typically seek integration of infrastructures and monetary unions. In this context, the exchange of trade preferences is but an initial aspect of a much broader and deeper integration agenda. Regional trade agreements have their limits. Experience has also shown that 100 per cent product coverage of free-trade provisions is the exception as opposed to the rule, as the domestic forces that resist trade liberalisation at the multilateral level are just as likely to resist it at the regional level, perhaps even more so given proximity. And FTA partners do not generally exempt each other from using trade defence instruments, which are a frequent source of dispute in the WTO, but also regionally. For third parties, RTAs imply trade diversion as a result of tariff preferences, reinforced by preferential rules of origin.

International Marketing Game 6.1

Students should learn Mackenzie's Seven S Model and use it in the game as follows:
The best way to look at the imperative of improving performance is through Mackenzie's Seven S Model (see Figure 6.3):

Figure 6.3 Mackenzie's Seven S Model



The model has shared vision at the centre and the other remarkable thing about it is that each of the Seven S is interconnected with no hierarchy between them. Shared vision or the super ordinate goals are of higher order, which go beyond profit, return on investment (ROI), growth and similar economic or financial measures. There are certain guiding concepts—a set of values and aspirations often unwritten, that go beyond conventional formal statements of quantified corporate goals and objectives.

Mahatma Gandhi's vision was of India with its heart in the villages, as he believed that unless the villages prospered India could not become prosperous. J.R.D. Tata'a vision for India was that of an industrially-developed nation. Dabur's vision is an Ayurvedic resurrection in India.

Seven S Model

1. Strategy is a set of actions, plans and policies aimed at obtaining sustainable competitive advantage for the firm.
2. Structures show the firms reporting line up, the organisation chart, functional divisions and their integration.
3. System gives the flow chart of operations, the processes, quality control system, manufacturing process, information system.
4. Style shows the working philosophy, time management and behaviour with seniors, juniors and the peer group by the personnel of the firm, where the leader shows the way and others emulate the leader.
5. Staff determines the career growth plan of the employees, training patterns and honing of their intrinsic values.
6. Skills are the capabilities of the combined set of people in the firm.
7. Shared vision (discussed earlier).

In this management game the students should analyse the different aspects of the Seven S Model for a given company and organise its success story around these factors.

INTERNATIONAL CUSTOMER, COMPETITION AND MARKETING CONTROLS

In the competitive field, firms have to keep looking at the customers to know their mindsets, changes in demographic profiles of the customers and increase or decrease of demand in the market segment, which the firm is targeting. Marketing plans are made on the basis of these factors and market dynamics. The best of plans can become useless unless they are implemented in the correct manner and are kept on the rolling mode, that is, with the facility to alter the plan with speed and efficiency. It is unwise to ignore or underestimate the competition as it is unwise to plan without information about the market, which must form the bedrock for market planning, as discussed next.

International Market Information System

Selling without knowing the market situation is like shooting in the dark and is as useless too. Most firms keep track of what is happening in the market place with the help of their field force. The field salesmen are known as the eyes and ears of a firm. Moving in the market, meeting channel members, who carry competitive products as well, a sharp salesman can find out the moves being planned by the competition. Firms must structure the information gathering process to make it really effective and synchronous between the salesmen. In case the information collected by different salespersons varies, it will be difficult to make any conclusions from it and hence take any decisive action. The structure of information will depend on the product range, customer segmentation and distribution channels. The use of computers, networking and access to computers available to the decision-makers and the field force will make the market information system (MIS) useful.

Information for MIS is required in the following areas:

1. Changes in the general environment factors, that is, demographic, socio-cultural, political-legal, technological, macroeconomic and global factors.
2. Changes in competitive environment factors, that is, rivalry amongst existing players, threat of new entrants, threat of substitute products, bargaining power of buyers and bargaining power of suppliers.
3. New distribution channels.
4. Price changes by the competition.
5. New product plans by the competition.

International competitive information gathering by devious means is called industrial or market espionage and should be avoided. At times, competitive sales people are themselves happy to boast about their firm's plans. The wisdom is in letting the competitive salesman know the trivia about the firm couched in a language impressive enough to look like a major information leak. In exchange the firm can draw out vital information from the competition's salesman. Market information system is basic information and it should not be confused with marketing research.

For collecting useful MIS, the following are required:

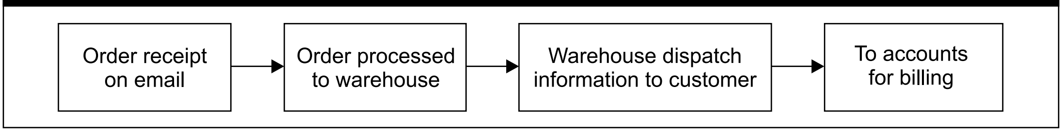
1. People, who are locals living in the host country rather than people from the home country.
2. Procedure for gathering the information.

3. Equipment, like computers.
4. Analysis and evaluation of the information.
5. Making the information available to concerned people, the decision-makers through access to computer networking.

Imminence of need of information and its recency are two important factors.

The present ordering scenario on the internet is given in Figure 6.4:

Figure 6.4 Ordering on the Internet



Recency is a word used in market research that shows the age of the data—is it recent enough and can be used or is it outdated and should be discarded. A lot of MIS is available in a firm's records and it only needs to be put into usable order. It starts with the following forms generated in the firm:

1. Acknowledgement of customers, the channel members, host country's company office or business-to-business orders received by the firm.
2. The marketing department's order to dispatch the goods to the warehouse or production unit, depending on whether the product is always ready for dispatch or is made to order.
3. The warehouse' shipping bill, with particulars of goods dispatched.
4. The accounts department's invoice to the customer.
5. The customer's advice to its bank to release payment for goods acquired from the firm.
6. Increasingly customers are turning to the internet. Transactions over the internet are usually speedy—customers are happy to receive their product quickly and companies get their money quickly.
7. Computers help in inventory controls and in updating the position of stocks on a day-to-day basis.
8. Current inventory positions help in booking orders by giving realistic delivery schedules to the customers.

A country-wise inventory register on the computer would look like Table 6.1. A multi-product sales register on the computer for Dealer X of a particular country would look like Table 6.2.

The data would help in estimating the reordering time taking the transit time average from the manufacturing unit to the warehouse. The information can be kept for more than two years as it gives a good comparison of sales drops or pickups in any given comparable period.

If the dealer is selling competitive products as well, similar statistics could be procured for the competition and kept as guidelines about the dealer, his selling capacity and loyalty towards the firm. An important area of marketing is the collection of outstanding dues from the dealers/customers and salesmen need to have updated knowledge of these details at their fingertips. The salesmen must know the status of complaints received from the customers, as unless most of the complaints have been settled to the entire satisfaction of the customer, the salesmen would be wasting their time and

Table 6.1 Country-wise Inventory Register

Product	*Stock in hand*	*Stock in transit*	*Total stock*	*Stock awaiting transportation*	*Balance stock*	*Uncommitted stock*
Model A fans	1,400	300	1,700	500	1,200	1,100 (100 kept for emergency requirements)

Table 6.2 Multi-product Sales Register

Product fan Model A	*April 2002 sales to the dealer*	*January–April 2002 sales to the dealer*	*April 2001 sales to the dealer*	*January–April 2001 sales to the dealer*

that of the customer if they visit the customers. Chances are that they will not be even welcome at the customer's premises. The salesmen therefore need the registers as shown in Table 6.3 on the data bank of their computers.

Table 6.3 Outstanding Payment Register

Dealer/Customer	*Outstanding dues less than a month old*	*Between a month < three month old*	*Between three–six months old*	*More than six months old*

The complaint register should look like Table 6.4:

Table 6.4 Complaint Register

Dealer/Customer	*Complaint number and date received*	*Attended by (name of the person) on date*	*If not yet attended reasons for delay*	*If attended, customer's satisfaction certificate date*

With the help of computer networking, the following information can be available to the salesman on his laptop, before he plans sales calls on his customers:

1. Latest price lists with available discounts.
2. Customisation possibilities (with the required timeframe) of the product.
3. Product configurations available.
4. The supply position of previous orders and for fresh orders.
5. Error correction needed in previous orders, if any.

6. Position regarding customer complaints.
7. Product uncommitted inventories for ease of giving delivery schedules for fresh orders.

International buyers can thus get the online information and definite commitment regarding supply positions.

Once the orders are received by the salesmen they can email it to several locations like the marketing department, inventory manager and production unit, dispatch wing at the same time to save postal delays and for improving the delivery time to the customers. Online communication and interaction helps in avoiding last-minute glitches in the system.

Information or data required to build the MIS must be tuned to decision-making only because data for the sake of having data serves no purpose, occupies computer space and becomes a time-wasting exercise only. In order to justify MIS data, the following must be kept in mind:

1. Does the firm need dealer support in building its MIS?
2. Would dealers' invoices giving details of their retail customers suffice?
3. Decisions needed to be taken.
4. The frequency of the decisions.
5. Data required for taking the decisions.
6. Frequency of data need.
7. Any periodic or even sporadic special report required for taking decisions.
8. The type of data analysis required.
9. Does the firm need a built-in MIS improvement system? If yes, then of what type?

For obtaining competitive information the following can be done by firms:

1. Ask the dealers selling competing products.
2. Use mystery shoppers at competitor's showrooms.
3. Use third-party buyers at the competitor's showrooms.
4. Buy competitive products.
5. Consumer panels can be set up with members buying the products of the firm and its competition, for example, at kitty parties.
6. Get information from suppliers of raw materials who could be common to the firm and its competitors.
7. Set-up a database group for continuous monitoring of the internet for competitive information.

INTERACTIVE PROJECT FOR THE CLASS

Suggested Topics for Group Report

Company studies: These topics involve field interviews and correspondence combined with documentary sources. Students have to make full use of libraries of institutes, the US Library and the British Council Library.

1. A global marketing audit: Design a marketing audit that a company can use to determine where it is in the Keegan typology of stages of development of the global corporation and what it should do with the information. (The Keegan typology of global corporation analyses its ability

for creation of world standard products, its cross-cultural strength and its effectiveness in global markets.

2. Make report analysing the global marketing strategies of companies.
3. Global product management: Under what circumstances have companies integrated their domestic and foreign product planning and management? What factors have led to this integration? What are the explicit and hidden costs and benefits?
4. Global marketing transfers: How do companies manage the transfer of marketing experience internationally?
5. International marketing data analysis: Make an analysis of published data with implications for management.
6. Global market performance analysis: Economic and social data combined with company sales, earnings and expenditure data and judgemental measures of competition could be used to measure and evaluate market performance in different countries.

Topic Reports

1. Marketing in Japan, India, US, Europe, China, etc. Secondary sources and personal interviews. If you do this type of report, make sure that your report has practical implications for marketing managers.
2. Export pricing policies. Examine the export pricing method used by a company or group of companies and make recommendations for improvements. Explain why you recommended these changes.
3. Pricing strategy in multinational corporations for inflationary markets.
4. How can Indian programmers solve software problems in the US while the Americans are sleeping? Make a proposal to an American software company (for example, Microsoft) to engage software professionals in Bangalore to find time-sensitive solutions at a competitive rate, making use of the difference in time zones and pay scales.
5. Using the internet to scan and search for international business opportunities. This can be a company study or a report. Ideally students can do their research on the internet, interview company representatives who have used the internet to expand internationally.
6. Creating equidistance in viewing the customer. Suggest a strategy by which international competitors can be close to the customer whether the customer is located 5 km away or 10,000 km away.
7. An original research project that fulfils the requirement of international marketing and involves both primary and secondary research and is doable in two weeks.

Note: As soon as the project is agreed by the group, a proposal should be written down and approval must be given by the faculty who will question the students and make sure that the project can be achieved.

Task for Students

Define the data needed by an FMCG firm for taking marketing decisions and also discuss how the firm should go about collecting and using it?

* * * * * *

MARKET PLAN IMPLEMENTATION

Firms need to implement their marketing plans in the following manner:

1. Convert marketing plans in to action tasks and procedures.
2. Convey the firm's objective, which drives the plan to the marketing team and obtain full commitment of all members on the objectives.
3. Give sufficient authority for implementing the plan.
4. Assign marketing team members with the tasks, both individually and as a team.
5. Monitor the progress of the implementation process through unobtrusive check points.
6. Get the team's commitment on the time needed for implementation.

Firms need to quickly evaluate the causes of losing their grip on the market as seen by loss in sales, to assess the reason for failure. Is it the plan's failure or that of the people implementing the plan? Have the people assigning the implementation to the team gone wrong or is the fault of the set objectives or that the team has faltered? The other causes of failure could be incorrect budget allocations for the implementation, ineffective training given to the team members or limitations of coordination between the team members, which could be due to ignorance or ego problems of some of the members. A firm's management must be aware of the process of evaluating the effectiveness of the plan implementation process.

Most implementation problems arise because of lack of clarity in setting up the marketing goals and objectives and the provision of tools for evaluating the success of the plan. Product portfolio management is possible only if a firm knows the profit picture of each product it sells. Besides, it is important to understand the marketing and support expenses needed or made for each product. Several firms found to their dismay that they were spending far too much on the products in maturity or decline stage of the product life cycle. Firms are known to have kept loss-making products in their range either due to lack of knowledge about its profitability or due to ego problems: 'this was our first product launched 10 years ago and it gave us lot of profits earlier.'

A firm needs to look at some of the other areas also as discussed next:

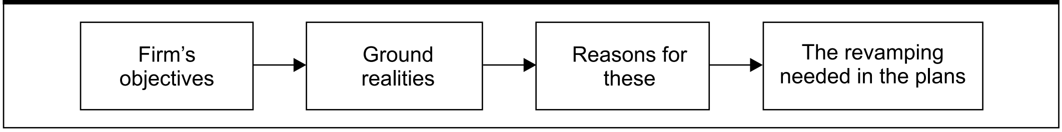
1. Keep their current assets under control by tracking the inventory levels, use push sales technique by passing on the inventories to the distribution channel members.
2. Keep track of competitive pricing. Does the firm want to be the price leader or merely the price follower? At times, firms increase their prices and they find that the competition was just waiting to follow suit.
3. Keep track of customer complaints, their redress period and improvement or deterioration in customer satisfaction levels for the product.
4. Keep a technical audit of all technology-level complaints and ensure that the production, quality and research and development (R&D) people are aware of the same. They also need to ensure time-bound correction of the fault levels.
5. If the product has really failed then no amount of marketing effort or advertising can help it and the management must decide quickly to withdraw it from the market as soon as possible.
6. An audit on the advertising efforts and promotions must be made periodically to ensure that these expensive efforts do not go in vain. The single variable technique, where the firm imposes a ban on other promotional activities for a period, can give most precise results in this complicated issue.
7. How good are the salesmen, are they properly trained, totally motivated and committed to their firm and their tasks, is the rivalry among them healthy or destructive can be assessed by

obtaining and understanding the daily or weekly reports sent in by the salesmen. These control points and their implementation plans must be made well in advance and told to the concerned people with total transparency to get the best out of the team members.

Firms should keep a good grip on things all the time because it would be futile to cry over spilt milk. Timely corrective actions, like counselling of erring people, change in plan and altering time schedules can become the guiding factors in the success of a firm.

Is the firm exploiting the international marketing opportunities fully, product-wise, market-wise or distribution-wise? The management team comprising the CEO, the international marketing director and the finance director should jointly be involved in understanding the market position of the firm, its ethical approach and societal responsibilities. The marketing director should use sales analysis, country-wise, product-wise, area-wise, salesman-wise and distribution-wise to know the growth of the market, the firm's market share, percentage of market expense to each areas' sales and compare the same with the objectives. A financial market analyst should look at the profit or loss situation for each product, area salesman and distributor and compare the same with the objectives. The marketing manager should evaluate the efficacy of advertising, promotion, distribution channels and the salesmen to help in modifying the plans to make them more effective as shown in Figure 6.5:

Figure 6.5 Plan Modification Process



The decline in sales revenue and profits could be attributed to decline in the total market, decline in the firm's market share, decline due to reduced prices or increase in selling expenses.

A firm selling motorcycles had planned to sell 100,000 bikes in the year at a price of Rs 30,000 each, with the total revenue being Rs 300 crore. It was targeting a total of 25 per cent of the country's market. However, it could sell only 80,000 bikes at a net price of Rs 25,000 each. The total revenue was only Rs 200 crore. The market leaders in the bike business apparently got the balance of the sale. The price revision had to be done to reduce the onslaught of competitive forces. The market, in fact, increased by 10 per cent that year. By the virtue of market growth, the firm should have sold 11,000 bikes. The firm therefore lost total sales of 30,000 bikes. The loss of revenue due to loss in sales is shown as follows:

30,000 bikes @ Rs 30,000 is Rs 90 crore which is the loss due to decrease in the sales.
80,000 bikes @ Rs 5,000 the lowering in price is Rs 40 crore loss.

An audit of the firm and its various branches can be quite an eye opener as at times when the firm is making profits a few loss-making branches can be carried as extra baggage. The moment the tide turns against the firm, these loss-making branches become the first victims of the axe. The profit picture should be analysed for each branch, profit centre, SBU, market segment and for discounts on bulk buying. There are situations when each sale is loss making and increase in sales only adds to the losses. These could be for products in the Dog Quadrant of the BCG Matrix. Firms must decide proper strategy to get out of the loss situation at the soonest. In case of channels making profits also, is the firm spending too much on helping them make profits, giving high commissions. It is worthwhile to understand the brand equity versus the dealers' reputation to accurately determine the level of dealer commission to be paid. For new products in the market, the dealers do have the power as they have been in touch with the customers selling them other products. Later on the firm develops product brand equity, which helps in selling the product to a large extent, reducing the stranglehold of the dealers. The commission can then be downsized in such a manner that the channel members remain loyal, like asking them to participate in promotional plans and joint advertising efforts.

At times a firm takes an intelligent knowing decision of selling a product on the basis of marginal costing. The management must attribute the decision to locked inventory or for entering a new competitive market. Whatever be the reason the loss in profit must be self-evident and should not be made a burden on the sales team that they should bring back the profits in the rest of the sales. Attempts at doing so should be made and are praiseworthy.

Similarly there is an age-old rivalry between product unit and the international sales force. When the orders are not received in time and there is an inventory build up, the production team starts blaming the sales force. Conversely, when orders exist and there are delays in dispatches the blame is borne by the production. The situations like these cannot be totally eliminated, but can be reduced in intensity by establishing coordination teams between the two departments and enforcing transparency in operations of the two departments. The other option is of having local host-country licence production or production from a wholly-owned subsidiary.

It is therefore important to know if the firm's increase or decrease in market share is in consonance with increase or decrease of the total market demand or not, else the firm can become complacent about its achievements. Market share therefore assumes great importance in firms marketing plans. Most CEOs consider market share and brand equity as two of the firm's most important assets. While the growth of the market is dependent on factors outside of the firm, it affects the firm totally. The firms should therefore realise the area which are responsible for increase or decline of the market at any point of time.

General business environment factors like legal issues affect the business. It is, however, quite likely that they do not have the same effect on all the competitive firms. The 9/11 assault on the US did shrink the tourism business but the effect was different on different firms.

Firms should normally benchmark their operating results with the best in the industry. However, if a firm is the market leader, then it should compare only with it's own past results or with the nearest competitor only.

Market share loss could be due to leaving unprofitable customers and areas and may lead to a better bottom line. Entry of new firms in competition would lead to loss of share; but again the percentage loss may not be the same for all the competitors.

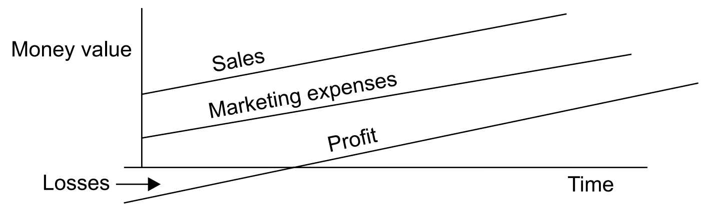
Market share depends on the number of customers with the firm, their buying patterns and buying quantities, the ratio of the firm's buyers in the market and the purchase averages of the firm's customers vis-à-vis the competitor's customers and it also depends on the price differential between firms to some extent, especially for products for the low- and middle-income groups where price sensitivity is a major issue.

The effect of marketing expenses needs to be monitored and it should be a major criteria for the way marketing plans are developed.

As can be seen from Figure 6.6, in case the marketing expenses go up, the profit may decline and there may even be a loss. Marketing expenses can be divided as follows:

1. Salaries and travel expenses of salesmen, which can be high in the international arena.
2. Advertising.
3. Sales promotion.
4. Distribution channel commission (unless, of course, the channel members are allowed to have a mark-up on prices).

Figure 6.6 Profit and Loss Chart



5. Sales overheads like administrative expenses rentals, telephones and other correspondences.
6. International marketing research.

Depending on firms, these could vary a lot. Cola companies spend 25–30 per cent of their sales revenue on advertising and promotion, while some industrial goods firm may not spend more than 5 per cent. Firm needs to benchmark these expenses and keep a checklist because at the end of the year it may be found that the expenses have gone haywire without a resultant increase in sales and profits. There, of course, can be regional and seasonal fluctuations in these expenses, but firms would do well to provide guidelines to the sales teams about the possible upper limits on each of the expenses. The following gives an idea of prevalent expense as a percentage of sales turnover norms in most industries (it would be better to go by the industry norms in most cases, unless the situation is unusual like a product launch):

1. Salaries of the sales team and travel expenses—10–15 per cent
2. Advertising—5–25 per cent
3. Promotion—3–10 per cent
4. Distribution channel commission—7–15 per cent
5. Sales overheads—2–5 per cent
6. Market research—0.5–1 per cent

The variation seen here takes into consideration the product types—consumer durables, FMCG, industrial and services. Individual industries need to take their historical norms if it is an already existing one. Otherwise it can benchmark the most efficiently run firm in the same business and which is almost equal in size.

Firms planning international marketing must build marketing scorecards (MSCs) for soft numbers as against hard facts like sales, for the entire marketing department, which can be then modulated for each sales team and each salesman. The MSCs should focus country-wise on the following:

1. Master list of all the customers and prospective customers for industrial products.
2. Master list of the distribution channel members and their major clients for FMCG and consumer durables.
3. Master cards of all new customers giving their full particulars.
4. List of customer complaints and the delay in their redress and similar study of the competition.
5. Rating points on customer service as compared to the competition.
6. Current market segment being catered to and new segments, which can be targeted in the future.
7. Product awareness levels in the target market segment.
8. Product acceptance level in the target segment.

The hidden costs of the marketing team must be unearthed so that they could be reduced if not completely eliminated. They are:

1. Cost of inefficiency
2. Cost of unethical practices

Cost of inefficiency can be seen from low number of sales calls by the salesmen, low call effectiveness, increase in cost per call, increase in entertainment expense without relative increase in sales, increase or decrease in orders received with the money value of increase or decrease, customers lost or gained.

Cost of unethical practices can be seen in undue lowering of rates for low volumes of orders, unmatched inventories of accessories, unauthorised commitments by salesmen to customers causing losses to the firm.

In a nutshell, the marketing team should be given freedom of action within the framework of authority but must also be accountable for achieving the firm's marketing objectives. Controls in the area of marketing should be instituted more as a help to the sales team until they prove to be going totally off the track.

International Marketing Game 6.2

Discuss the need for control points for marketing teams, how they can be formalised for different type of products and channels.

Company studies: These topics involve field interviews and correspondence combined with documentary sources.

1. A global marketing audit. Design a marketing audit that a company can use to determine where it is in the Keegan typology of stages of development of the global corporation and what it should do with the information.
2. Reports analysing the global marketing strategies of companies.
3. Global product management. Under what circumstances have companies integrated their domestic and foreign product planning and management? What factors have led to this integration? What are the explicit and hidden costs and benefits?
4. Global marketing transfers. How do companies manage the transfer of marketing experience internationally?

QUESTIONS FOR DISCUSSION

1. Do the ethical and social responsibilities of the host country pose problems for a company? How do these complicate a company's operations?
2. What is a political system and what are its major functions?
3. What are the major differences between a democratic government and a totalitarian one?

7 International Pricing

AIMS AND OUTCOMES OF THE CHAPTER

Pricing in the international market needs an entirely different approach as the business environment and competitive environment are perceptively different. This chapter will help students in gaining confidence for proper pricing in the world markets. Price becomes a factor of brand equity, competition and the cost to sell in host countries, while cost to make can only define the profitability of product marketing and, in extreme cases, whether the product should stay in the market or if it should be withdrawn.

INTRODUCTION

In the pre-Industrial Revolution era, the tribe centred political entities believed in the barter system as a means of commerce in which two tribes swapped their produce as per the value each had for each other's products.

For example if tribe X had an excess of cotton and tribe Y had an excess of wheat, they would exchange the products to satisfy their respective needs (see Figure 7.1). Then came the Industrial Revolution with mass production techniques and emergent markets for products, which were far flung in area. The need for money was felt and it gave commerce the much-needed fillip. Now people could buy and sell products as per their requirements of a larger variety of things (see Figure 7.2).

Figure 7.1 Barter System

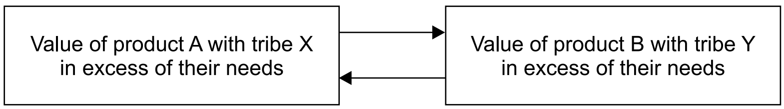
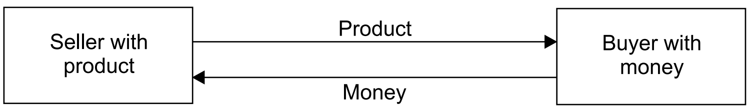


Figure 7.2 Today's Trade



Till that time there were only a few manufacturers of a product and competition was not known as a business reality. With the Industrial Revolution, society started becoming affluent and the demand for most products started increasing. With demand increase came competition. Today we see competition as a multi-headed dragon swallowing up lesser products or brands or badly-managed firms.

A product that is sold is supposed to give satisfaction or delight to its user. Hence, international marketers need to look at various other aspects of the product that go into providing the customer satisfaction. The non-price areas are the services that go with the product, the guarantee, brand image, availability of spares and easy usability. Export pricing assumes greater importance than the local market price because internationally the company is fighting competition from a large number of international players. Local pricing is built up of the following elements of costing:

1. Fixed unit cost of the product.
2. Variable unit cost of the product.
3. Profit margins planned.
4. Distribution costs.
5. Transportation costs.

Product pricing in a highly-competitive world has assumed unprecedented importance in the management of markets for firms' profitability, especially in the international markets where it is easy to get out-priced by a competitive company.

The following are the elements considered when international prices are fixed:

1. Production cost.
2. Profit plans.
3. Brand image or equity in the host country.
4. Seasonality of business.
5. Market segment.
6. Competition.
7. Product life cycle stage.
8. Guarantee/warranty offered.
9. Payment methods and terms.
10. Currency fluctuations.
11. Transportation costs, modes of transport, its frequency.
12. Discounts/special offers.
13. Range of products with the firm.
14. Product launches.
15. Product value and utility for the customers.
16. Outsourcing of manufacturing, its location and applicable transportation costs.
17. Status of the business environment, both general and competitive, in the host country.
18. Provision of continuous service, if required by the product.
19. Quantity purchases and regularity of purchase.
20. Prompt payment.
21. Marginal cost pricing. This is adopted when there is severe competition in the market and the company desires to get a foothold there. In such cases, only a small amount of the fixed cost is taken into consideration, while the price is fixed substantially on the basis of variable cost.

There are usually three types of market situations and each gives different pricing opportunities:

1. Monopoly market
2. Oligopoly market
3. Perfect competition

In case of monopoly, there is only one supplier of the product and in such cases the firm has the following options:

1. Charge a premium price or keep skimming price.
2. Keep cost plus, pricing.

In oligopoly situations, there are just a few suppliers, say four or five. In such cases, the customer's purchasing power governs the price. In some cases, the firms join hands to form price cartels with a view of keeping prices high for all the firms. In many countries, including India, cartel formation is considered illegal.

Perfect competition means having a large number of suppliers of the product. These could be of the same type and size or could belong to different categories like the small-scale unorganised sector or large-scale organised sector. In between there are medium-scale sectors, government companies, multinational corporations and joint ventures. The unorganised sector has much lower overheads.

At times they avoid paying taxes and hence can price their products quite low. However, compared to a monopoly's skimming prices, perfect competition usually brings about penetrating prices.

Hence, the first price formula can be shown as follows:

> Selling price = a f (manufacturing cost + profit), where a is the effect of competition on price and f denotes function.

With competition becoming severe, its role in pricing has increased which can be shown as:

> Selling price = b f (competition), where b represents the manufacturing cost and f denotes function.

Let us consider products made for industry, that is, products for business-to-business sale. In most of these cases, the price is negotiated between the seller and the buyer. For products for mass consumption, with mass production techniques, costs can be brought down and lower price can be the result. Products for mass consumption are becoming brand managed and the customers are becoming brand conscious. Firms put higher prices on their products than the competition and still keep their market share for the following reasons:

1. Better brand equity.
2. Better distribution network.
3. Loyal customers.
4. Complete range of products.
5. Better service to customers.
6. Differentiated product.
7. Better delivery periods.
8. Better payment terms.
9. Comprehensive longer guarantee and warrantee.
10. Better value for money.
11. Better sales team.
12. Tailor-made products or customisation of products.
13. Most importantly, better understanding of the customer's needs, as international buyers' behaviour, international purchase motivations and salesmanship can be quite different from those of the home country.

It must be clearly understood that the customers do not pay for the product alone. They pay for the value or the benefit the product is going to provide them. It is the customer's perception of the product's value to them that justifies the price.

Price and product quality gets firmly established in the minds of the customers and many times, lowering of prices to increase market share becomes counterproductive as the customers feel that there has been a lowering of quality in the product, which has caused the price reduction.

The price fixed for a new product is based on the following:

1. Price of competitive product, if any.
2. Cost to manufacture.
3. Market segment for the product.
4. Product position in the market place.

5. Hierarchy of the distribution network. This determines the total sales commission to be paid to the channel members.
6. The product itself, its uniqueness as compared to the competition.

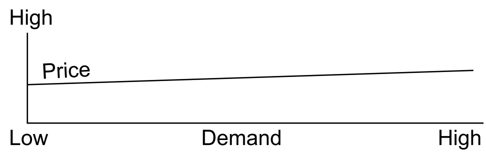
As soon as the competition forces its way in the market, the firm has to decide to have one of the following price methods:

1. For a top-quality product:
   - Skimming price or top price, which will place the product in the elitist market segment and generate good profits.
   - Medium price, which will give good value for money to the customers and place the product in select markets.
   - Low price or penetrating price, which would place the product at the lower end of the segment and increase the firm's market share. It will act as an entry barrier for new players.
2. For a medium-quality product:
   - Top or skimming price would provide extra profits, as also invite competition.
   - Medium price will give the customers value for money and place the product in a select market segment.
   - Low or penetrating price would place the product in the lower end of the segment, give value for money, increase the firm's market share and profitability and increase barriers for new entrants.
3. For a low-quality product:
   - Top or skimming price would work only during monopoly regime, otherwise, it will lower market share and invite competition.
   - Medium price will place the product in a select market segment and invite competition.
   - Low or penetrating price would place the product in the lower end of the market segment, increase the firm's market share and become a price barrier for the entry of new players.

Hence, the pricing strategy has to be evolved by firms by looking at the quality of the product, its position in the life cycle and its market share. Firms must understand the price-demand pattern for the product based on the selected market segment/s. The demand and price ratio varies with products. In some the demand remains inelastic irrespective of price while for some products even a slight change in product price changes the demand pattern drastically. The change in demand is also dependent on the market segment being catered to by the product.

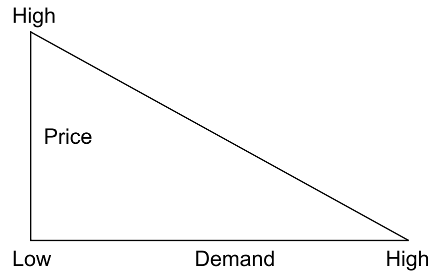
It can be seen that the demand for high-end products like Mercedes cars, first-class air travel, five-star hotel rooms and some of the essential items of daily needs like food, the demand remains near constant with price changes as shown in Figure 7.3:

Figure 7.3 High-End Price Demand Parity



For products like consumer durables, refrigerators, ovens and fans the price is a major factor in purchase decisions as shown in Figure 7.4:

Figure 7.4 Consumer Durable Price Demand Parity



Products that can show unique features, do not have many known substitutes and have low maintenance costs and are less price sensitive. As cost of manufacture does affect the final price, let us discuss what the cost is made of. There are fixed costs, the overheads and variable costs, which constitute the total manufacturing cost. Fixed costs remain unchanged with the volume of production, like the interest the firm pays, the salaries, power, telephone and rental bills. In fact, even if there is no manufacture, these payments have to be made. Variable costs depend on the volume of production like the cost of material and labour.

Total cost = fixed cost + variable cost.

Suppose for manufacturing 5,000 computers, the fixed cost is Rs 30 million and the variable cost Rs 20 million, then the total cost would be:

Total cost for 5,000 computers = (Rs 30 million + Rs 20 million) = Rs 50 million.
Fixed cost works out to Rs 6,000 and variable cost Rs 4,000 per computer.
Fixed cost per computer = 30,000,000/5,000 = Rs 6,000.
Variable cost per computer = 20,000,000/5,000 = Rs 4,000.
Total cost per computer = Rs 6,000 + Rs 4,000 = Rs 10,000.

Let us see what happens when the firm doubles the production to 10,000.

The fixed cost gets reduced as now the total fixed cost is divided by 10,000 as follows:

Fixed cost = Rs 30,000,000/ 10,000 = Rs 3,000.

The fixed cost therefore gets reduced as the production increases. This is known as economies of scale of manufacture.

With experience in manufacture over a period of time, the workers improve their skills and human error losses get reduced. This reduction directly reflects in lowering of variable costs and this is known as the experience curve effect. Firms strive for achieving cost leadership by means of manufacturing as per economies of scale and providing the desired experience to the workers.

PRICING FORMULAE

The original method of pricing a product has been the cost plus method in which the total cost is taken and profit margin added to it.

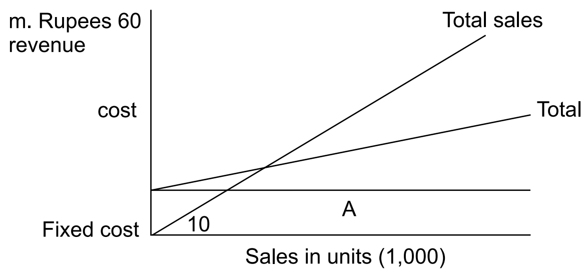
Suppose the unit variable cost of manufacturing a bicycle = Rs 300
Fixed cost = Rs 3,000,000
Sales planned = 100,000
Total unit cost = variable cost + fixed cost/sales = Rs 300 + 3,000,000/100,000 = Rs 330

If the sellers wants a 10 per cent mark-up then the selling price of the bicycle would be as follows:

Unit cost/1-mark-up or, Rs 330/1–0.1 = 330/0.9 = Rs 367 per bicycle.

Pricing a product too high runs the danger of having no sales as also inviting new competition, while too low a price may give sales volumes, but no profit at all. Hence, pricing needs careful planning. Sellers want that they should, even in the most severe competitive conditions, not lose money at least on a regular basis. They look for getting a minimum of break-even sales volume (see Figure 7.5):

Figure 7.5 Break-even Analysis



A is the break-even point where the seller gets, at least the costs, both fixed and variable, and that is the minimum the firm would like to sell in the first instance. Today, pricing has become more a function of fighting competition, especially in the international markets than ever before. It is, besides competitors, the customers who are guiding factors in price fixation. The customers view a product and its price on the following parameters:

1. Brand name of the product/brand equity.
2. Product quality as perceived by the customer.
3. Uniqueness of the product.
4. Ease of availability of the product.
5. The product range—is it a single product offering from the firm or is it a product range.
6. Ease of usage of the product.
7. Availability of after-sales service—speed and quality of service.
8. Product price in totality including price of consumables, loss due to down time and price of accessories.

Firms resort to penetrating pricing in order to increase their market share. Following the leader, other competitors also bring down the prices. Hence, the advantage of lower price is only short-lived, which brings the original market share out of the firms back, but for minor changes. It, however, leaves a lasting dent on the profit picture of the firm. This factor has, at least in oligopoly conditions, been responsible for the formation of price cartels—formal, if allowed by the government; informal, if not allowed by the government. These cartels help firms to keep skimming the price of their product or increasing the price of their product, without losing business to competition. Besides government regulations, the other danger to cartels is the distinct possibility of more competitors joining the race.

In case of government customers, mostly sealed tenders are invited from the manufacturers/sellers of the product. In the tender business, firms have normally to send two different offers as follows:

1. A technical bid giving the product's technical specifications, capabilities and conformance to the specifications needed by the buyer.
2. A commercial bid giving the price and other terms of business.

The sealed bids are opened on a designated date, time and place in front of the bidders. First, the technical bids are seen and those not meeting the desired specifications are excluded from the tender. Next, the commercial bids are opened and the buyer decides the firm(s) with whom the order is to be placed on its basis.

FINALISATION OF PRICE

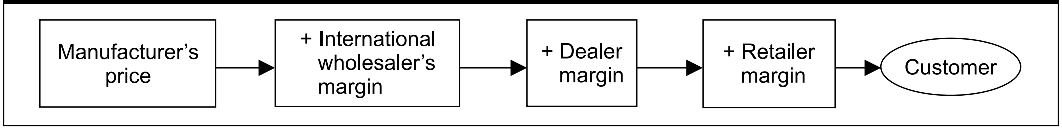
The following attributes are taken into consideration at the time of price finalisation:

1. Price and quality perceptions of the target market customers. In many products, price and quality do get interlinked and any lowering of price or keeping price lower than competition has a definite effect on the customer's mindset, as they believe that a lower price could mean a product with lower quality too.
2. Brand equity.
3. Advertising penetration and effect on the customers.
4. Price of other products of the firm in relative terms of their importance to the customers.
5. International prices could depend on the relative balance of payment situation with a particular country, currency exchange rates and tariffs. (It would be of interest to students to know that during the existence of the USSR, India's trade with it was known as rupee trade, as both the countries were short of hard currency, the dollar. Needless to add, the USSR had no need of our rupee and we had none for their money. It was in a sense a barter arrangement where each country would sell to the other some useful but mostly useless items to the other country).
6. It could also be in two parts, one part could be a barter arrangement and the other could be on the basis of cash payment.

Summarising, it can be said that firms need to have information on international competition and the customer's psychology before the price can be fixed correctly. As the markets are dynamic entities, the pricing mechanism also has to be kept in readiness for changes as per market needs and a firm's objectives.

As most consumer and several industrial products are sold through distribution channels, their price must take into account the margins to be offered to the channel members or their possible mark-ups, if they are given one price by the manufacturer and asked to add their profits or mark-up on to the price. Hence, the retail price could be made up of the following:

Figure 7.6 International Pricing



When the firm offers its price to the customer as maximum retail price, it includes the margin given to the channel members, which could be as shown in Figure 7.6 or different. Besides, firms offer cash discounts if the channel members pay cash. Discounts on offer could be the following:

1. Cash discount on cash purchases.
2. Turnover discounts given on the basis of the channel member achieving a given and accepted turnover in product sales.
3. Inventory clearing discount is given when the firm has a large inventory and the discount acts as an incentive for the dealer to buy more.
4. Quantity discount is offered for the purchase of a minimum specified quantity.
5. Advertising subsidy is actually the money given as share of the common advertising by the firm and the channel member.
6. Off-season discount is given for buying the product when it is not needed like buying woollens during summers and air conditioners during winters. (In fact, for air conditioners there is, at times, a premium during summer.)
7. Prizes for super-achievers among the channel members are offered to those dealers who have at the end of the year done remarkably well. It could be a gift or a free trip to some exotic location at the firm's expense.

Price changes occur due to special circumstances also. At times, firms want to generate extra cash and they offload products at a much lower price, even at a loss. In exhibitions and *melas*, special prices are offered to exploit the buying mood of the people visiting these places. Cash discount to the channel members can be extended further to the customer/user, which would ultimately reduce stocks in the distribution channel and the firms can then have additional sales.

A major cost-related incentive offered these days is low-cost finance to the buyer, who can buy the product on borrowed money and pay the financier in instalments. Cars, houses and several consumer durables are being sold in large quantities, which have affected the sale of second-hand goods in India. Extra help can be provided by way of extended payment terms making buying easy and with no worry of making payments.

Service marketing offers different types of challenges to the sellers. For example, a five-star hotel may get two types of customers as follows:

1. One person who comes alone, stays for a day in one year and spends about Rs 5,000.
2. Another person comes three times a month, brings three–four colleagues with him and spends about Rs 500,000 per annum on hotel bills.

It is said that the customer is king. Can we say that the second customer is definitely the king? What about the first one? Is he only a prince? Maybe he will become a king in time.

Most service industries therefore need to do a customer value analysis (CVA). For a five-star hotel the following matrix (Figure 7.7) needs to be completed to give a proper designation to each customer–customer group:

Figure 7.7 Sample of Customer Groups for Determining CVA

Tourist solo
Tourists in groups
Small businessman
Senior executives
MNC executives

- The type of room taken—ordinary, deluxe or a suite.
- Usage of the health club by the guest.
- Usage of the bar, restaurant, room service by the guest.
- Usage of the business centre by the guest.
- Usage of laundry service.
- Usage of national and international telephony available.
- Usage of any other facility provided by the hotel by the guest.

Each customer is rated between 1–5 and only then can the hotel decide about the true value of a particular customer to them.

Coming to pricing, the following elements go into the pricing of a hotel room:

1. CVA
2. Competitive pricing
3. Cost to sell the room
4. Seasonality
5. Location of the hotel

International Marketing Game 7.1

Determine the various methods of pricing products in the international markets.

QUESTIONS FOR DISCUSSION

1. Define and discuss the importance of the following in international marketing:
   (*a*) Culture and cultural imperialism
   (*b*) Group membership
   (*c*) Hierarchy of needs
   (*d*) Culture shock
   (*e*) Polycentrism
   (*f*) Ethnocentrism
   (*g*) Geo-centric
2. What are the important factors used in fixing export prices?

8 International Business-to-Business Marketing

AIMS AND OUTCOMES OF THE CHAPTER

With globalisation taking roots in the world of business, students should be ready for handling assignments on business-to-business marketing as there is a lot of export of software, raw materials and components, which fall in this category.

As students try to understand the business market, they should know how much it is different from the consumer market, what are its salient features, the buying decision process and the decision-makers in the business. It is important to know the people who influence buying decisions. At times the government buys and this falls in a somewhat different category. From this chapter students will gain an international perspective on conducting business-to-business trading.

With globalisation taking roots in the world of business, students should be ready for handling assignments on business-to-business marketing as a lot of export of software, raw materials and components fall in this category. As we try to understand the business market, we should know how much it is different from the consumer market, what are its salient features, the buying decision process and identify the decision-makers in the business. It is important to know the people who influence buying decisions. At times it is the government that buys and this falls in a somewhat different category.

Business buying is a process, by which the business defines its need for a product or service, finds out the various vendors supplying the product, scrutinises each vendor carefully and then decides which is the best-suited one. The next step is the action step, of placing the order.

Business buying is distinguished from consumer buying as there are normally *fewer but large volume buyers* and they tend to have a *long-term commitment* to the vendors/suppliers. The marketers therefore need to cultivate the buyers and build business relationships with them.

Business or industrial buying has the following main features:

1. The demand for raw materials and components depends on the production plans of their buyers and hence it is indirect or derived demand. If car sales go down, the sale of tyres will be affected too. Cement demand is connected to construction activity in a country.
2. As the buyers price their final product taking the prices of all the different components which go in to making of the product, the demand remains firm with little or no change with changes in price. Of course, buying from a particular firm may fluctuate only if it increases the price of the product and other competitors do not.
3. An increase in consumer goods demand skyrockets the demand of components, raw materials and capital goods.
4. Major purchase decisions in a firm are group or team activities. The user initiates the purchase action by sending his requisition to the purchase manager (PM). The purchase manager then gets it vetted by the technical manager to get complete product specifications. Afterwards, a tender is floated or selected vendors are asked to bid their price. The finance manager then looks at the price bid. Finally, the comparative pricing along with technical specification compliance by each of the bidders is studied and the final purchase recommendations are made, to be approved by the chief executive officer (CEO). The process is described in Figure 8.1.

The people involved in the decision-making process have one goal—that of buying the right product at competitive prices. However, due to the nature of their activities, it manifests differently as can be seen from the following:

1. A *user* wants a product he has used earlier, or as he wants if it is a research project.
2. A purchase manager wants to buy the traditional product to avoid inventory problems.
3. A technical manager wants a state-of-the-art product.
4. A finance manager wants a value for money product.
5. A CEO wants only the best product.

While the product remains the same, its attributes and benefits can be put across differently to various persons to satisfy their needs as stated earlier. The decision process takes the shape of a triangle known as the decision triangle as shown in Figure 8.2.

Figure 8.1 Final Approval before Order

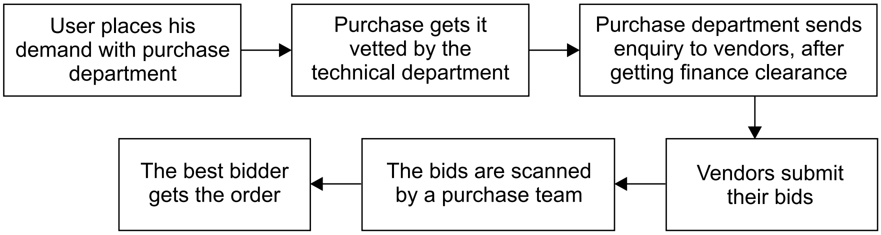
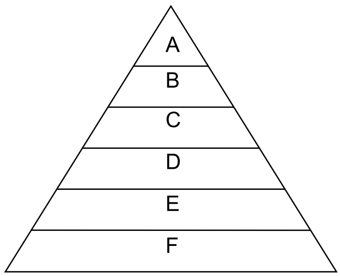


Figure 8.2 Purchase Decision Triangle



F: This is the area of ignorance and sellers have to provide a lot of information to the buyer.

E: This is the first level of doubts from the buyer, which must be clarified by the seller effectively.

D: This is the second level of hostility because competitors hold on to customers. The sellers must give added benefits to counter the competition's hold on the customer.

C: In the third level, the attack is direct: 'Your product is too expensive or it is not good enough.' At this point, testimonials from important local and overseas customers must be shown to the customers. Additional guarantee can be offered if need be.

B: The customer usually likes to dither at this stage: 'I have to ask my partners. I do not have the required authority.' Usually the customer is bluffing and the incentive of prompt payment discount or extra credit facility if a prompt order is placed can be given.

A: At this point, the seller should offer an either/or option: 'You want us to insure or you will take care of it.' The answer to this question 'okay you do it' or 'no we will take care of it' means that now you can ask the buyer to sign the purchase order.

Once the purchase order is in your hands, do not linger in the customer's office. Thank him and come out fast. At times the customer may just want to have another look at the order and say, 'Okay, the order is yours but leave it with me for the next two days so that I can show it to my brother.' The order could be shown to your competitor and the next day he may walk away with your order! This practical suggestion is the result of experience of a number of sellers and should not be ignored.

One important link in the decision-making process is the role of influencers and those who veto the decision. Influencers are the people who wield an extra-hierarchical authority, which is often unwritten and only understood. Those who veto the decision are the top brass, like the firm's chairman, who can veto the decisions of even the CEO. Thus, it can be seen that the decision-making process is channelled through the following people:

1. The user or the initiator of the requirement.
2. The purchase assistant who starts the purchase action.
3. The technical manager who provides the detailed specifications of the product to be purchased.
4. The production manager who has to perhaps ultimately approve its usage.
5. The finance manager who looks for the investment angle.
6. The stores manager who has to arrange for the inventory and its control.
7. The influencers who help in the decision-making process and can almost force a decision on the CEO.
8. The decider or the CEO whose ultimate responsibility is to see the profitable growth of the firm.
9. Those who hold the power of veto, usually the chairman of the firm.
10. Stoppers or gatekeepers who are the competitor's unofficial agents and who try to keep the firm at bay by giving wrong information and misleading them while trying to pose as their best friend. Firms should be on guard against such people by trying to locate and isolate them.

In most firms, for major purchases there is a purchase committee, which is empowered to either decide on the purchase or is only empowered to give its recommendation to the CEO. The sellers therefore must cultivate the firm's entire purchase team and communicate with the team members in a language best appreciated by each individual. For example, the sellers can take the following communication route:

1. To the user: Sir, the new product is so user-friendly that you will find it twice as easy to use than the present product.
2. To the purchase person: Sir, once you buy the product, its reliability of supply and its quality will minimise your inventory worries.
3. To the finance person: Sir, we give value for money with the lowest rejection rate in the industry. You can be sure of production continuity.
4. To the technical person: Sir, this state-of-the-art product will let you in on the latest user-friendly technology and your technical team will love to use the product for further innovating your own final product, much to the delight of your customers.
5. To the influencers: Sir, buying our product would certainly enhance your own image in the firm.
6. To the decider: Sir, we know of your desire to buy only the top-of-the-line product and hence you will surely decide in favour of our product.
7. To the person who holds the power of veto: Sir, buying our product while vetoing others will raise the prestige of your firm and its brand equity.

In order to communicate to each of these people it is useful to get the counterparts of the purchase committee to talk to the firm's members as follows:

1. The buyer's purchase manager with the seller's international sales manager.
2. The buyer's production or technical manager with the seller's research and development manager.
3. The buyer's finance manager with the seller's international finance manager.
4. The buyer's CEO with the seller's international CEO.

In all such meetings, the marketing executive works as a liaison or coordinator.

PURCHASE NEGOTIATIONS IN TENDER AND NON-TENDER BUSINESSES

Big volume buyers usually call three or four short-listed vendors for the final negotiations on price and terms of business. These negotiations are similar in both tender and non-tender businesses. The main consideration of the buyer is to get the best out of the deal by playing one vendor against the other. The dialogue goes something like this:

Buyer: 'Your prices are very high compared to MS X, your main competitor.'
Seller: 'I am sure you will compare the quality of our product and our service too.'
Buyer: 'Yes, but the price difference is so big that I cannot justify purchasing from you.'
Seller: 'Can you give me an idea of the price they have quoted?'
Buyer: "It is nearly 20 per cent cheaper than your price.'

In such cases, especially if the location is away from the seller's headquarters, it is advisable for the seller to keep the following information at hand for carrying out successful negotiations:

1. Comparative statement of previous quoted prices and negotiated prices for the same product and with the same competitors internationally.
2. Product costing with elements of fixed and variable costs.
3. Floor price, that is, the lowest price to which the seller has the firm's authority to go down to.
4. Authority to modify terms of business like payment terms, guarantee period, warranty terms, faster delivery periods, if these become necessary to clinch the order.

While the sanctity of the tender business is its transparency, most buyers flaunt it for the sake of getting the best deal.

Industrial sales or business-to-business sales can be a long drawn out process as the money value of the orders are usually large and the buyers want the best deal. Hence, several sales calls, visits by technical experts, financial experts, quality management team members and turnkey project engineers become essential.

Industrial buying is mostly directly from the manufacturers but, in case of raw materials and components, the sellers use the services of distribution channels, especially when there are several buyers strewn all over the country. In this case also the manufacturer has to provide technical support to the channel members. Buyers prefer to buy from those vendors who in some way are their customers too. A tyre company's fleet of cars is usually bought from the car manufacturer who buys tyres from them. Leasing and hire purchase is an option increasingly being used by buyers and the seller who offers the best option tends to get the deal. Several large firms hire out cars to be given to their employees rather than buying them as it saves on capital expenses.

Government Tender Business

In India, there are two types of tenders, running contracts and rate contracts. In running contracts, the Director General of Supply and Disposals (DGS&D) floats a tender and on receipt of offers negotiates with firms about the rate and quantity for the product along with other terms of business for a period of time and the offices of the government can then place direct orders with the vendor on those prices and terms. For this purpose the government office has to register itself with the DGS&D as a direct demanding office. As against this, a rate contract is for a product purchase at a fixed rate for the period of contract only.

Umbrella Buying or Turnkey Solutions

Business buyers prefer to buy a large range of products from one source and hence a number of sellers tie up for providing turnkey solutions which can become cost-effective as also take away the headache of dealing with several vendors. In taking buying decisions, the buyers are greatly influenced by 'who says so!' In case the industry leaders give a good reference for the turnkey operations the selling becomes easy.

In business purchasing, long-term contracts with accepted vendors reduce buying problems to a large extent as vendors take special care of such customers by offering new products to them first, handling complaints quickly, giving prompt replacements for defective or even suspected to be defective goods. Most buyers, however, keep at least one more vendor as a marginal supplier to avoid getting into the problems that arise out of putting all of one's eggs in one basket.

Let us examine factors that contribute to industrial purchases. Macroeconomic factors like demand and supply of money, product demand and its life cycle position, rate of technological obsolescence, competition and governmental stability factors affect industrial purchases. Organisational factors like purchase policy of reordering levels, policy of just in time (JIT) orders, vendor assessment procedures, centralised or decentralised purchasing and seasonality of business affect the buying process, as do strikes and natural calamities. In international buying cultural factors play an important role.

THE INDUSTRIAL BUYING PROCESS

Let us now discuss the entire industrial buying process. The following can be considered as industrial products:

1. Capital goods, plants and machinery
2. Turnkey projects
3. Raw materials

4. Components
5. Sub-assemblies

The method of marketing capital goods and turnkey projects have some commonality, while the other three come under one product group. Let us discuss the process of capital goods sale and turnkey projects or total systems. In this case, the number of buyers is small and the suppliers are mostly well known. The buyers approach the sellers who put up the bid giving technical details as called for, assurance of quality, at times even the list of their vendors and price information. The following information is also given in the quotations:

1. Assembly and sub-assembly process, individual and system guarantee and warranty.
2. Facility and provision for training the buyer's technical personnel.
3. Photocopies of the actual guarantee cards of bought out components.
4. List of recommended spare parts with their prices.
5. Price escalation clause.
6. Installation and commissioning time period and costs and help involved, including manpower needed by the seller from the buyer during the installation and commissioning periods.
7. Payment terms along with delivery schedule.
8. Post-guarantee period cost of servicing and service contract prices.
9. Sellers seek the authority from the buyer to subcontract part of the job, like installation and commissioning.
10. Sellers seek approval from the buyer to receive payment on part supply of equipment.
11. If there are variations in product specifications, these are brought out by the sellers and specifically approved by the buyer. In case such approval is not given then the sellers have to reconsider the entire bid.

Capital goods or turnkey projects are normally not manufactured by one firm. The firm that makes the largest part takes the role of the lead bidder and others support the lead bidder with their quotes to the leaders. In some major tenders, the sellers are asked to submit two separate bids for the same tender—one containing a technical compliance report of the tender specifications and the other giving the price and other commercial terms of the tender. The buyer in such cases opens the technical compliance bid first and shortlists only those bidders who have full compliance with the tender specifications. Other bids are rejected.

Next, the technically-compliant bidders' commercial bids are opened and again the firms are shortlisted on the basis of acceptability of the price delivery terms and payment modes. The technical and purchase experts then give their final recommendations about the sellers on the shortlist to the firm's CEO, that is, they recommend who should be awarded the tender. If two or more firms are close in their bids, then the buyer calls them in for negotiations.

For turnkey projects in India, the government has started another method of awarding business called BOT—build, operate and transfer. In such jobs, the seller builds the project, runs it for a selected period (and gains profit out of it) and then transfers it to the government. Bridges and highways are some examples of BOT projects.

Turnkey jobs or systems selling call for a large variety of products and expertise in marketing finance technology and coordination between a large number of suppliers. For the customer, the main advantage is that he has to deal with only one vendor.

The marketing person should be looking into the following aspects in the buyer's organisation in industrial sales:

1. The decision-making process.
2. The hierarchy of decisions, including recommendations.
3. The authority to purchase at different levels.
4. Does it have a culture of innovation or does it like to maintain status quo?
5. Is purchasing from headquarters only?
6. Is there decentralised buying?
7. Internet's influence in the purchase department.
8. Product grouping like ABC analysis.
9. Immediacy of demand—are they regularly asking for emergency supplies or it is only once in a while?
10. Long-term business contract.
11. Short-term contract.
12. On the spot buying.
13. Seasonality of their business and of their purchasing.
14. Do they prefer a single vendor or multiple vendors?
15. Do they provide advance payment if needed?
16. Payment reputation—are they prompt or do they delay payments?
17. Associated business and other assets and liabilities.
18. Firm's reputation among vendors.

In the second half of the twentieth century, the orientation of firms had shifted from just purchase to material management. Today, it has further changed to supply management or supply chain management. The theory of JIT supplies is a corollary of supply chain management. Long-term relationship with the vendor, which is almost like a partnership and vendor development ensures continuity of good quality product supply whenever needed. These help the vendors too as they are sure of getting the orders or better still they always have a rolling supply order, which keeps getting replenished on its getting over with all ordered supplies made by the vendor.

However, the common practice even today is having multiple supply sources to ensure supplies even when one vendor maybe facing a crisis. Buyers tend to put a lot of products in the generic group where any vendor is good enough to supply and they have only shortest term purchase planning. The vendors would therefore do well to understand the mindset of the buyer and then decide about marketing strategies for the buyer.

Internationally, industrial buyers have the following considerations while placing orders:

1. Inventory status, maximum and minimum stock plans for each item to be purchased.
2. Reordering levels which depend on the difficulty of procuring the product due to the lack of its suppliers, it being from far off places or overseas.
3. ABC analysis of the products to be bought.
4. Production plans taking into account the seasonality of the demand of the buyers' final product.
5. Storage space.
6. JIT plan of procurement.
7. Past experience of product rejections.

INTERNATIONAL INDUSTRIAL MARKETING RESEARCH

In the first half of the twentieth century, industrial marketing research was done using simple methods like counting the number of chimneys or looking at the new industrial licenses issued by the government. Today, the industrial scene is much more complex as no license is required for setting up industries. However, information is available through secondary research as a number of magazines and journals are printed giving industrial information. State governments have started industrial parks, which house a number of industries. There are clusters of industries in various parts of the country where the government provides tax concessions. Besides, there are market research agencies which are continuously involved in doing research that can be purchased.

Industrial purchase decisions can be triggered by a number of reasons as follows:

1. Market research informs of the need for a new innovative product for which capital-manufacturing equipment is required.
2. Old equipment needs to be replaced with state-of-the-art equipment.
3. Change in technology of manufacture.
4. Raw material or components purchased is sub-standard.
5. Fresh vendor assessment.

Once the need has been established, it is necessary to correctly define the product, make a detailed list of its specifications, expected prices and possible vendors. Looking for possible suppliers can start with existing vendors of similar products, journals about those products, trade magazines and even competitors. In case of raw material and components, trade journals, existing suppliers and competitors can be a good source of information. Once the vendor list is finalised, a limited tender or a request for quotation is made in writing where detailed specifications of the product and the expected delivery time are given.

Final vendor selection needs careful scanning of the following factors besides the scrutiny of its technical and commercial bid:

1. Past record of the vendor.
2. List of its customers.
3. Testimonials from customers about the quality of the vendor's product and service.
4. Visit to a manufacturing unit where the product may be in use, in coordination with the vendor, with the possibility of discussions with the users there.
5. The vendor's financial status.
6. The vendor's flexibility of supplies.

The next logical step is making a detailed purchase order giving details of the product to be purchased with all its specifications, price payment terms, details about the delivery period with guarantee and warranty terms and other service facilities that need to be specified. Once the product is received and used, feedback from the user is essential for the purpose of further purchases from the same vendor.

COMPETITION IN INDUSTRIAL BUYING

Competition comes if the buyer starts vertical integration, that is, the buyer starts to manufacture what it was buying from the firm. Vertical integration is of two types:

1. Forward vertical integration: Here the vendor starts to manufacture the product it was selling. For example, if a cloth maker starts to make readymade garments or a television picture tube maker starts making television sets, it would be called forward vertical integration. In such case there is loss of a customer.
2. Backward vertical integration: Here the buyer starts to make the component he was buying for his manufacturing unit. For example, if a cloth maker starts making yarn and a television maker starts making television picture tubes, it would be called backward vertical integration. In such a case also a customer is lost.

International Marketing Game 8.1

1. How does industrial marketing differ from consumer marketing? Discuss giving examples.
2. What role does negotiation play in industrial marketing?
3. How does vertical integration affect industrial business?

QUESTIONS FOR DISCUSSION

1. Is it useful for companies to look at group memberships in international marketing?
2. What factors affect the cost of manufacturing overseas?
3. What are strategic alliances?
4. What are the reasons for making divestment decisions?
5. What are licensing, franchising and joint ventures?

9 International Marketing of Services

AIMS AND OUTCOMES OF THE CHAPTER

The importance of the service sector in international markets is increasing by the day. A number of Indian companies have started international ventures and others are planning the same. Marketing of international services would require special strategies and treatment as compared to marketing of tangible goods. Students will learn about the marketing process and philosophy behind marketing of services in this chapter.

The importance of the service sector in the international market is increasing by the day as a number of Indian companies have started international ventures and others are planning the same. Marketing of such international services requires special emphasis and treatment as compared to marketing of tangible goods. It is therefore important to define service as follows:

> Any act or performance that one party offers to another which is in reality intangible and does not result in any ownership by the receiver of the service. Production may or may not be a physical product.

An important factor in the marketing of services is an understanding of the host country's cultural ethos, religious sentiments and accepted practices for providing the services.

The service sector includes the following business entities:

1. Hotel industry: There are a number of Indian hotel brands doing business overseas.
2. Airlines: Several Indian airlines fly to foreign destinations.
3. Hospitals: The international business in Medicare has increased in the country.
4. Insurance: This has always been part of international trade as products exported or imported are insured against transit risks.
5. Schools and colleges: International students are enrolling in Indian schools while Indian students also go overseas for studies.
6. Travel agents: International travel and tourism has remained a key factor of international marketing and today the Government of India is doing everything possible to provide the impetus that travel and tourism in India requires.

Giving a haircut, babysitting or giving tuitions to students are examples of service. There are service areas that are connected to products too. However, the marketing of services is characterised by the following elements:

1. Intangibility
2. Inseparability
3. Variability
4. Perishability
5. Personality

INTANGIBILITY

Most of us like to eat out at restaurants. While inside the restaurant, the customer uses its facilities like its furniture, air-conditioning and enjoys the food. The moment he steps out of the restaurant, he has nothing of the restaurant with him except the food he has eaten and perhaps pleasant or bad memories. While travelling by air, a passenger occupies a chair, which he is not going to carry with him once he gets off the aircraft. Some may like the experience of travelling by air, its comfort and airline's food while others may not like it at all. The tangible factors, experienced only in the duration of the flight, would be the aircraft, the attendants and the food and drinks that are served on the aircraft. The service is something felt by the users and hence its proper communication, quality levels and people involved play a major role in giving it a form. Unlike products, which can be patented, service cannot be and therefore it is impossible to copy the same. It is the personal touch, which can make service quite unique. In the international arena, a service touches people in a positive way if it is provided in accordance with their customs, in a language they understand and with the requisite courtesy that makes them feel important.

INSEPARABILITY

Customer and service are connected by the service being provided. Can a patient be removed from the operation he is undergoing? A barber has to use his scissors only on his customer. Unlike products, which can be manufactured at one place and sold at other, services cannot be removed from the location where the customer is present. The problem arises when in a hospital there is only one heart surgeon and two patients need an emergency operation at the same time. The surgeon and the patient are therefore inexorably intertwined during the surgical procedure. Similarly, in college, students and teachers are a part of the service-providing process.

VARIABILITY

As people provide service, no two persons can give identical service. Service as a product looks for providing quality to the customers. However, the individualistic trait of its character makes it independent of any major regimen. The hotel industry takes pride in training its personnel to uniformly provide excellent service as per the service manual of the hotel. Can anyone make a standard specification of a smile which the service provider offers with the service?

PERISHABILITY

Hotel room, which remain unoccupied, or airlines seats, which go vacant, are two examples of product 'service' being only short-lived: you need to use it or it expires.

PERSONALITY

Service is highly dependent on individual personalities. The manager of a restaurant once greeted a couple, who were visiting the restaurant for the first time, by introducing himself and then enquiring about their names, favourite foods and the table they liked. When the same couple visited again after a couple of months, the manager greeted them by their names, gave them their favourite table and could talk about what food they may order this time around. One bank manager would help his preferred customers when they came in a hurry by paying them against their cheques from his office. Such personalised service brings rewards for the firm by ensuring them loyal customers. Therefore, in the service industry, there is a great importance attached to human resources and its training. Service firms do a lot to ensure loyalty of their employees, which in turn helps it in improving its service standards.

Imagine a large shop where the customers are treated in an impersonal way as the salesman fails to distinguish them from the commodities he wants to sell. If the same customer were to go to a shop where the salespersons attend to them and looked after their needs, the customer would have a completely different shopping experience.

Service and Products

With almost all products there is an element of service attached. In the same way, with most services, there is product involved. When customers purchase consumer durables, the product is guaranteed to be fault free for a period of time and during this period the manufacturer provides free service for the product. Car manufacturers offer a number of free services to ensure the smooth running of the car. Likewise, the tangible product in air travel is the air ticket and in a hospital it is the medicines given to patients.

Service as Product

Service as product has the benefit of immediate customer feedback as the users are using the product in front of the service provider. Most restaurants keep customer feedback forms, which help them build a quality management programme suitable to their clientele. Some services like telecom service need prompt complaint redresses otherwise not only will they have customer dissatisfaction but they also lose in revenue as the user has to use the service to enable the service provider to bill them for usage. Poor service in hospitals can even prove fatal for its clients and the service providers are duty bound to provide the best possible service to the patients. International service providers must keep the standards of the host country as their benchmark.

Attention to Complaints

In most service products, the customers are supposed to enjoy the total experience provided by the service. In a restaurant it is the ambience, the seating arrangement, the music or the live band, the air-conditioning, the food and its service, which together give the guest an enjoyable experience. If even one element causes complaints, the entire experience could be a bad one. Hence the service provider has to organise total quality management or better still total customer management, in which case each act or process of providing service is directed to the customers. However, in case of customer dissatisfaction about any part of the service, immediate attention of the service management is required to douse the fire of dissatisfaction and ensure it does not recur. International service providers can even lose their entire business in such cases.

Responsibility of Service Quality

In many cases, the process of service is a sequence of tasks performed by various people. It is therefore easy to shift the blame and pass on the buck to someone else. Cable operators shift the blame of poor reception of some channels by saying that the channels themselves are not providing strong signals and nothing can be done about it. A bank manager can say that he could not credit your account as the head office has not cleared the incoming cheque. A car insurance company can say that the damage assessor has not submitted his report and the claim cannot be settled. The answer is in someone taking *integrated responsibility* for the timely execution of service by coordinating the different related activities.

Table 9.1 shows a partial list of products and associated services:

Table 9.1 Product and Related Services

Industry	*Product*	*Service*	*Environment*	*Service delivery*
Automobile	Car, accessories	Title transfer, registration insurance, loans	Showroom	Test drive, number plates fixing
Hotels	Food, soaps, shampoos	Messages, room service, airport transfers, wakeup calls	The room, restaurants, health club	Housekeeping, room service, easy of registration and booking
Management institute	Degree	Residence, placement, lending of library books	Class rooms, computer labs. library	Teaching, books delivery job interview plans
Grocery shop	Goods	Salesman's assistance, credit	Shop floor	Friendliness speed and help in locating goods

Let us take the famous 4Ps of marketing:

Product: As discussed earlier, service as a product has an element of physical product attached to it. Likewise, each product has some service with it. When dresses are purchased, the products are the clothes and the salespersons efforts in convincing the customer, showing him the variety of clothes amounts to providing service. When a customer visits a restaurant, the waiter provides him with service and the product purchased is the food he eats there.

The following items provide examples of products with a negligible service element to them:

1. Dresses
2. Jewellery
3. Furniture
4. Housing

The following are examples of products that have a very large element of service to them:

1. Restaurants
2. Hotels
3. Hospitals
4. Airlines
5. Travel agents

The following are largely services with a negligible tangible element about them:

1. Hair dressing

2. TV repair
3. Medical diagnosis
4. Dental care

The seasonality of service demand can be seen from the high demand for dry-cleaning just before winters in India or hotels during summer vacations. In order to bolster the demand during the off-season, the service industry offers off-season discounts like hotel room upgrades, discounts on dry-cleaning and the like. French telecom offers a mini computer—Minitel—free with which users get access to a host of websites.

Table 9.2 gives an idea of how supply and demand is managed in a hotel:

Table 9.2 Hotel Industry Supply Demand Paradigm

	Season	*Off-season*
Price	Increase prices for high-demand rooms	Price promotions
Promotion	For higher usage of hotel facilities	For encouraging a visit
Product/Process	Faster check-ins and check-outs, self-service restaurants, buffets	Better personalised service, silver service meals, free drinks on arrival
People	Train more people, keep temporary staff for jobs with no customer contact	Give extended service periods in restaurants, provide free sight-seeing trips

In certain resort locations no one can build a hotel for seasonal demand and hence the hotels must optimise the facilities for customer satisfaction and delight. In other service areas too the service provider must build in the flexibility to cater to a varied number of customers.

Let us understand clearly that each organisation *must* become a service-oriented organisation, because it is only with differentiated services that it can get a sustainable competitive advantage (SCA). *It is only with prompt service, which is better than the service provided by the competition, that firms can satisfy or delight a customer.* Needless to add, the needs of the customers are ever changing, not only for product but also how he wants to be attended to while the service delivery takes place. The following guidelines are provided for the purpose:

1. Total quality in service management: It starts with personnel selection, well-defined jobs, training for the job and empowerment of workers to achieve quality standards and then exceed them through their efforts. Worker's participation in experiments for improvement needs encouragement from the management with built-in checks such that the experiments do not adversely affect customer satisfaction.
2. ABC analysis: Customers give different weightage to the facilities provided in a hotel, like restaurants, health clubs, shopping malls and business centres. Hotels must understand which areas are of utmost importance to the customers and pay due attention to these areas. For a resort hotel, for example, the health club will have priority over the business centre.
3. Revenue generation: Revenue can be generated by making the more important areas easily accessible to the customers by, for example, increasing the hours for which the health club and shopping mall are open, adding tables in restaurants, giving incentives like one free drink on visiting the bar.

4. Personalisation of service: A personal touch is given to services rendered by addressing guests by their names, helping them find the address and phone numbers of their friends in town, arranging for tickets for evening shows and the like.

The service industry has both direct and indirect buyers. Direct buyers would include user buyers, like restaurant guests, while indirect buyers would be travel agents for hotels, or doctors for hospitals. The service provider has to make special efforts to form and maintain relationships with the indirect buyers. Besides, the opinion leaders play a major role in buyers' decision-making process, for example, a college computer professor would be responsible for purchase assistance in buying computers.

Critical Success Factors (CSF)

Critical success factors for the service industry are simply the factors that are important for the success of the firm. For a hotel, its location, its ambience, star rating and reputation (brand image) are critical for its success. For a hospital, the doctors, nursing staff, equipment would be the additional CSFs. It is important that firms develop these factors to the maximum. The CSFs should be customer-related factors only.

Market Segment

Product usage depends on its positioning, which in turn depends on the segment of the market it is catering to. In times of severe competition, firms tend to select a niche market where the competition is minimal and the firm can develop its strategy for gaining a sustainable competitive advantage through critical success factors. Market research can help firms in deciding the market segment they should be looking at. Market research provides information about the product attributes and the benefits the customers seek from the product in different segments.

Product Pricing

As in the case of products, service pricing is dependent on the level of competition in the locality and the industry. The selling price is considered a function of competition as follows:

Selling price (SP) = $a \times b \times c \times d \times f$ (competition)

Where a is the cost of production, b is the seasonal effect on business, c is the customer value to the firm, d is the promotion plans and f is the function, as selling price is also a function of competition.

Customer Value Analysis

Customer value analysis can be done in different ways depending on the service being sold and the market segment it is catering to. For example, the hotel industry can have two different kinds of guests, one who comes once a year, stays for a week, does not eat at the hotel or use any of its facilities, and another customer who visits every month, spends large amounts in throwing parties in the hotel, uses all its facilities and runs up bills amounting to thousands of rupees every year. While the customer is supposed to be king, it should be understood which one is a king, which one an emperor and who is a prince. One should not, however, forget that today's prince could be tomorrow's emperor and no one can afford to neglect a customer. The customer value analysis helps in making special price-cum-promotion packages for the top buyers to increase their business with the firm. Another example is mobile phones. One user may pay the monthly rental, and return calls from a land phone. Another buyer may use the mobile phone throughout the day and make national and international calls, running up a monthly bill worth hundreds of thousands of rupees.

The customer value analysis for a five-star hotel can be determined using the following matrix (see Table 9.3):

Table 9.3 Customer Value Analysis

Type of guest	*Type of room/ suite*	*Use of restaurants*	*Use of health club*	*Use of business centre*	*Use of banquet halls for parties*
Business traveller					
Foreign tourists					
Indian tourists					
Groups					

Similarly for other service products matrix can be made to assess the CVA.

Management of Complaints

In spite of the best intentions and efforts of the service provider, sometimes events and situations occur that make the customer unhappy. Prompt redress of complaints adds to the relationship, which the firm is trying to establish with the customer. *The firm needs a defence mechanism to not only counter the cause of unhappiness but to convert the situation to its own advantage and thus help in improving the relationship.* The task is tough but with sagacity and timely action it can be accomplished and the firm is more than likely to retain the customer and his goodwill. International buyers accept the novelty in service and yet will not accept any discomfort to themselves arising out of the 'unique' service.

Checking into a hotel might take a long time; a free welcome drink helps take away any unhappiness about the delay in most cases. In a restaurant, if guests are unhappy with the food served or the delay in service, the restaurant manager can offer complementary desserts to the guests. What happened in a hotel's restaurant is narrated next:

> One busy evening six guests came and ordered food. When the food arrived, the host among the guests started shouting at the waiter that the food he had brought was not the one ordered by the party. As the waiter was sure of the order, he kept arguing that he had brought the right order and if he were to take it back the cost of the order would be debited to his account. A verbal duel continued with none accepting that they were in the wrong. At this point of time, the manager walked in. He told the waiter that of course the guest was right and he rebuked the waiter for wasting the guests' precious time. He asked the waiter to go to the manager's room and called another waiter, ordered six special meals on-the-house. The six, it turned

out, had started a big industry in the town and from that time onwards they became regular patrons of the hotel, throwing lavish parties and entertaining their clients at the same hotel, bringing big business for it. However, the story would be incomplete unless what happened to the errant waiter is told. In his room the manager told him, 'Yes, of course, you were right, but they are the guests. Go home today and take Rs 100 from the cashier, enjoy with your family on our account.'

The manager, in one stroke, made the guests his friends and did not displease the waiter either, as good relations with employees are as important as maintaining good customer relations.

Response to Customer Complaints

While the service provider believes that the response to complaints must be prompt and satisfactory, in reality it is different as can be seen from the following:

1. On a holiday cruise a couple had booked a two-berth cabin with provision for a baby cot for their infant child, who was a free passenger. The travel agent forgot to tell the shipping company about the child and at the port the couple was almost thrown out of the ship with a message that there was no booking for the child. When questioned, the travel agency just turned their face saying it would not happen again.
2. A car bought by a friend started giving trouble from the first month of its purchase. The dealer did not respond to letters, phone calls and personal visits till the guarantee period was almost up. Only a letter sent to the CEO of the firm brought the dealer running for prompt repairs.
3. An international passenger was downgraded from business class to economy class for no reason. The flight attendants kept saying that as soon as the flight took off, the passenger would get back his seat in the business class. The passenger noticed that some rowdy passengers were transferred to business class, but he was not. A written complaint was sent to the CEO. An apology was rendered but it sounded hollow to the aggrieved passenger.
4. An irate airline passenger was given gift hampers of sweets instead of the complaint register for which he had made a request to the flight attendant.

Handling Complaints

A customer who has a grievance against the service being provided to him should be handled with kid gloves. One firm hires retired employees of the level of vice president to receive complaints; the customers feel satisfied that a vice president of the firm has heard their complaint. The vice president's job is only to pass on the complaint to the service-engineering department, and for this half-day job he is paid an honorarium. In essence, the first point of receipt of complaint is extremely important. The customer satisfaction chain of complaint handling is given next:

1. Communication link needs to be established between the customer and the firm's first point of contact. Subsequently, and quickly, the complaint should be sent to the complaint handler in the technical department.

2. Prioritisation of complaints need to be looked at from the customer's viewpoint and he should be kept informed at every stage of the progress of complaint redress.
3. There should be adequate authority in the field if finance is involved so that financial approvals from the head office do not delay the redress and are also not made an excuse for delays.
4. A sympathetic, pleasant voice should be used by the complaint handler. Use of a gruff voice might make things worse.
5. The customer's inconvenience during the redress stage should be limited to the minimum possible if the firm wants repeat business from the customer.

Assessment of Complaints

Firms should understand the nature of complaints, the recurrence levels and find permanent solutions. In case of high incidence of a particular problem (a complaint becomes a problem if left unattended), a quick resolution of the same is required. If the problem does not occur frequently and yet it is of grave consequences to the firm, it needs to be sorted out as soon as possible.

In case the problem appears minor to the management, it is better to take a customers' poll on it, as their perception could be totally different. Minor irritants should be solved with speed, as they could become major problems in times to come. However, only isolated inconsequential problems can be put on the backburner.

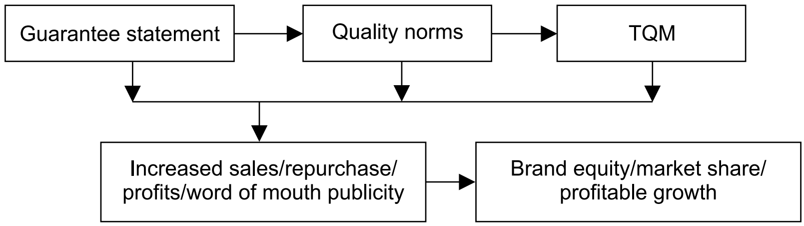
Guarantee of Service

In one hotel in Bangalore, if the guest does not get his breakfast within 10 minutes of ordering room service, he does not have to pay for it. To achieve a sustainable competitive advantage, firms strive for some unique selling proposition. While most products and most innovations can be copied, it is not so easy to copy the service being provided by the service provider. Some airlines started showing movies on flights and soon this became the norm on every flight. However, can the genuine smile of a flight attendant and his concern for the comfort of the passengers ever be copied? And yet, airlines have massive training programmes to ensure at least minimum courtesy service, which is better than the best offered by the competition. Airlines believe in standardisation in the manner in which service is provided like how the tea and coffee are to be served, how the cold drinks are to be offered, how the safety rules are to be demonstrated and even how the passengers are to be greeted on embarking on their journey. Even then, passengers have their favourite airlines.

Some providers of service place their guarantee certificates in inaccessible places, which cannot be read or seen by the customers. Others put a lot of safeguards in the fine print, which are almost illegible to the naked eye. *Guarantee certificates should be written clearly, they should be accessible to the customers and simple to execute to become part of a firm's image-building activity, which brings in customers for repeat service.*

Providing guarantees costs money to the firm. However, the money is usefully deployed if it can generate profitable business as can be seen from Figure 9.1.

Figure 9.1 Brand Equity and Profitability



Firms operate for profitable growth and that can be achieved through improvement in brand equity and word of mouth publicity.

Customer Satisfaction to Customer Delight

Service firms need to know the level of satisfaction their customer have before they can even think of customer delight. What irritates customers can be summed up as follows:

1. Long wait for service: Barbers provide magazines to waiting customers.
2. Wait while the service is being provided: One car workshop has started a restaurant, library and video parlour for customers who have to wait while their car is being serviced.
3. Flight delays: Beyond a period, the airlines provide meals/snacks, depending on the time of the day.
4. Long wait for food in a restaurant: Free non-alcoholic drinks and titbits help to keep waiting customers patient.
4. Super markets provide crèche facilities for small kids that enable mothers to shop in peace.

Customer delight comes from surprise packages. In several restaurants, if they know that one of the guests is celebrating his or her birthday, they provide a birthday cake with compliments of the management. Honeymooners get delighted if their room in the hotel is upgraded to a suite or at least to an isolated area. *Customer delight is a powerful tool to excite word of mouth publicity.*

When a traveller lands up in a foreign country to find no car or cab waiting for him, no reservation in the hotel where his secretary had confirmed his booking, his nightmare seems to have started. Then comes the hotel manager who personally calls a nearby equally good hotel, takes him there, gets him settled in before going back to his hotel and the nightmare disappears. The traveller is sure to go home and talk highly about the hotel manager.

Service Product Market Research

While planning a new five-star hotel in one designated locality, initially a secondary research would help in formulating new hotel plans. The information could be obtained from the records, balance sheets of other existing hotels in the area like:

1. Year-round room occupancy rate, with built-in seasonality effect, if any.
2. Popularity and consequent revenue of the various restaurants in the hotels, the type of cuisine preferred by the customers.
3. Usage of health clubs and business centres in the hotels.
4. Location advantage of the hotels.
5. Popularity of banquets in the hotels.
6. Any other salient feature which accounts for the success of a hotel.
7. Brand image of the hotels.

Besides existing hotels, the research should focus on process and service delivery improvement. Second, an assessment should be made to find out the result of previous process improvements. The research should determine what really clicks with the customers, what makes for the difference between success and failure.

Most restaurants and hotels have *request forms* to be filled by guests where they are asked to give their views and ratings to the various services provided. Once a month, these forms are analysed to find out the true worth of the place in the customers' mind.

Market surveys or customer assessments are regular continuous features in the hospitality industry. Therefore these must have the full support of the top management for them to be of use to the industry. The survey must have a clear-cut objective as vague ideas cannot bring the expected results. The best way is to identify the critical success factors of the industry and define the objectives on their basis. Afterwards, secondary or primary research or both can be planned as per the need. Once the research results are available they should be analysed and put to effective use otherwise the entire exercise of the research goes waste. If, for example, the research was meant to assess the processes after the research the process improvement should be planned on its basis.

Telecom firms in the private sector have started consumer research to constantly assess the customer acceptance factor for the services offered by them. Research on attitude formation and the benefits sought by the customers are carried out through focus groups and field research. From most researches it has been found that in similar services, for example, five-star hotels, the quality of service plays a major role in the firm's market share and that in turn affects the return on investment. Quality does not always increase the cost. In several cases, quality helps in reducing high rejections and better acceptance of the services offered, which reduce the costs.

International Marketing Game 9.1

1. Service is a product and its marketing offers challenges that are different from those present in product marketing. Discuss.
2. Pricing of a service is based on the customers' perception of the service and vice-versa. Discuss.
3. Quality of service can create competitive advantage. Discuss.

STRATEGIC VALUATION

Firms need to understand the process of taking strategic valuation, which is done as follows:

1. Review of current results.
2. Firm's compatibility with its vision, mission, goals and objectives.
3. Commitment levels, energy and motivation levels of the CEO and other top managers.
4. Understand external business environment, both general and competitive.
5. Review the internal business environment with the tools provided, for example, critical success factors, value chain analysis, core process and systems, balance scorecard, qualitative analysis, quantitative analysis, market focus and market life cycle.
6. Revise, if necessary, the firm's strategic intents, vision, mission, goals and objectives.
7. Find out the options available for gaining competitive advantage.
8. Plan the strategies for gaining competitive advantage.
9. Implement the time-bound plan keeping controls in place.
10. Evaluate the success of the plan on a periodic basis.

QUESTIONS FOR DISCUSSION

1. Discuss the emerging role of the service industry in global marketing.
2. Service industry internationally depends on its brand equity. Discuss the ways in which the brand equity of a five-star hotel can be enhanced in the target market segment.
3. Discuss the differences in approach to intellectual property rights among nations.
4. Growth of international marketing modes over a period of time, discuss the methods employed.

10 International Strategic Marketing

AIMS AND OUTCOMES OF THE CHAPTER

With changes taking place in the international marketplace, marketers have two choices in front of them, either they can react to the situations or they can become proactive, on which count they have to take the initiative of planning and implementing their plans for maintaining and even increasing their market share and brand equity. International markets are cruel and they do not forgive delays in decision-making. This chapter will help the students in fine-tuning their marketing skills that would enable them in fighting global competitions.

INTRODUCTION

Strategic marketing is the key to present-day market planning for the following reasons:

1. Firms have to make their selections based on various strategic options.
2. The business environment is constantly changing, calling for timely decisions.
3. A long-range view is required instead of fire-fighting plans.
4. Strategic analysis is needed to grasp the real issues facing the markets.
5. Resource allocation needs to be planned to ensure that unfruitful tasks are eliminated from the allocations.
6. Both horizontal and vertical communication and control systems should be in place.
7. Strategic marketing should help in keeping business ahead of competition during the market change phases.
8. To examine these points from the Indian point of view.

Firms keep introducing new products. Product variants and timing of the introduction is of strategic importance, as wrong timing could result in a disastrous product launch. Wrong selection of market segment, distribution channels or pricing could lead to launch failures.

Manufacturing in India can be categorised as follows:

1. Large scale
2. Medium scale
3. Small scale
4. Cottage industry
5. Cooperative sector

Differentiation can also be made on the basis of the nature of competition as follows:

1. Monopoly—where there is only one manufacturer of the product.
2. Oligopoly—where there are only a limited number of manufacturers, say four to six, of the product.
3. Fragmented market—in which case there are a large number of manufacturers of the product.
4. Structured fragmented—for several products like computers and air conditioners, there are two categories of manufacturers, the branded ones and the unbranded ones in the unrecognised or small-scale sector, with several players in each group.

Marketing strategy should be made taking into account the actual ground situation, considering the types of manufacturing units that are in competition and their actual numbers. The business environment can be categorised as general business environment and competitive business environment. It is necessary to understand the business environment and the competitive situations for developing right strategies. The next step is to analyse the situation before planning the marketing strategies. Both external and internal analyses need to be done.

External analysis: Most of the things regarding which a firm needs information, lie outside of it like:

1. The market and its relevant segment.
2. The customer.

3. The competitor.
4. The business environment.

Internal analysis would involve analysing:

1. The firm's performance.
2. Its policy and plans.
3. Its objectives and deviations between objectives and performance.
4. Resource allocation for achieving the objectives in the future before planning marketing strategies.

Products and markets correlate as per the following matrix shown in Table 10.1.

Table 10.1 Product–Market Correlation

Markets	*Existing products*	*New products*
Present market	Market penetration	Product expansion
New market	Market expansion	Diversification of product

Similarly matrix given in Table 10.2 shows the correlation between competition and markets:

Table 10.2 Correlation between Markets and Competition

Markets	*Existing competition*	*New competition*
Present market	Penetration	Price wars
Market extension	Promotion plans	Price and promotion

Strategic marketing is all about gaining competitive advantage on a continuous basis and finding out the strategies that will give you such a competitive advantage. Let us call it *strategic competitive advantage*. For planning strategic competitive advantage, the following method is used:

1. Plan the business scenario, and the shape and size of the market, likely after three and five years.
2. Plan your market share on the basis of feasibility.
3. Resources including cash flow need to be utilised for maximising the chances of achieving the objectives.
4. Focus on core competencies of the firm and synergise efforts for fully exploiting them.

The core competencies of a firm are:

1. Technology—does it give the firm a cutting edge?
2. Marketing—is the firm proactive in the market place and can it take full advantage of the business potential available in the market?
3. Finance—is the firm able to generate sufficient funds for growth and expansion?

4. Production—can the firm's cost to manufacture, including its time dimension, be compared to that of the competition, and is the firm finding ways of reducing cost of manufacture by going in for economies of scale and experience curve?
5. Human resource—is the firm's personnel geared to think and plan their every move for the benefit of the customer?
6. Government relations—does the firm maintain good and healthy relations with the government of the host country and does it avoid being at loggerheads with the government all the time? Can the firm get government approvals at short notice?

Once the firm gets the answers to these questions it is ready to take the following strategic decisions:

1. Who should be considered the firm's main competitors?
2. Where should the firm compete? In which markets, geographic areas and niche markets?
3. How should the firm compete? On the basis of price? Or quality? Superior service? Availability of genuine spare parts?
4. What are the areas in which information is lacking and is needed? Is a one time market research required or should there be a continuous flow of information?
5. Multiple uses of the product should be exploited. Bundling of products can help in selling slow-moving products at least to a degree.
6. Firms should plan the business scenario for the next three to five years taking into consideration it's competitors' plans and possible likely changes in the business environment.

Strategic marketing decisions are discussed next:

1. With international players coming to India, technology is going to change rapidly. Indian firms would do well to either invest in research and development or purchase the latest state-of-the-art technology to keep abreast of the competition or even forge ahead of them.
2. If the product is in the maturity stage of its life cycle and the demand growth has stagnated, it may be necessary to go for penetrating pricing to maintain its market share or build its brand equity to the extent that it can ask for and get a higher price than the competition. Price sensitivity of the market needs to be understood and decisions on pricing taken accordingly.
3. If new entrants are likely to enter the market with a better product, technology and brand image, it is necessary to invest in the product and the market by giving extra discounts, increasing coverage and, if possible, joining hands with a technology leader dealing with that product.
4. The customers of tomorrow are looking for products that give improved performance, have technical superiority, are easily available and offer financial assistance in the form of a lease.
5. Firms should have correct idea about the benefits the customers are seeking from the product. It is important to keep in mind the fact that a customer does not buy a product, he buys only the benefits that he derives from the product.

PRODUCT RELATED ANALYSIS

It is important to know the product on offer, its detailed specifications, both static and dynamic, in addition to the following:

1. Who are the users of the product, how they buy it, where they buy it, how they buy it and for how much?
2. How do the customers use the product? Does it have a single use or does it have multiple uses? How often do the customers use it?
3. What are the benefits the customers are looking for in the product? Manufacturers may have a particular view of these benefits while the customers may have an entirely different notion of what they want. The sellers of washing powder all talk about the whiteness of the wash, whereas customers never talk about the whiteness of the wash as the reason for buying a particular detergent powder. The best way to find out about the benefits the customers want in a product is to arrange a market research in the desired market segment.
4. Product pricing is an important aspect of devising a marketing strategy. When a new product is launched and there is no competition, sellers go for skimming price, in other words, they keep the price high to get the maximum profits before competition starts and they are forced by it to reduce the prices. If the sellers are looking for increasing market share, they use penetrating prices, that is, low prices to attract large customer groups. It is important to know if the product sales are affected by changes in price, that is, price sensitivity of the product must be known by research.
5. Knowledge about the competition is needed on a continuous basis as regularly new competition keeps increasing and the existing competition keeps changing their plans and policies. It is necessary to know the competitors' 4Ps. This knowledge should be updated regularly.
6. Brand loyalty/equity of the product of the firm and those of the competitors should be assessed well, as it is the single most important factor responsible for market share.
7. Market survey is required to find out the rate of product need in different market segments. Which segment has the highest per cent demand of the product and which segments follow the demand pattern must be known. Sub-segments, niche segments and crossover segment demand must be assessed. Only after this knowledge is available, can the seller decide as to which segment or niche market to enter.

The airline industry has found that they have basically two types of customers:

1. Business: Customers of this class want an air service that is reliable, on schedule, with wide-body aircrafts and offers flights from easy to use airports with comfortable lounges, frequent-flier programmes, telephone check-ins, connections between a wide range of cities, in-flight entertainment and possible upgrades from business class to first class.
2. Tourists: These are customers who look for low-price travel, airlines that suit their schedules and offer several stopovers. They do not mind travelling at night for the sake of low prices. They look for package deals in which air tickets and hotel accommodations are included.

Such details can only be found by getting proper market research done.

COMPETITIVE ANALYSIS

Next, let us look at the analysis to be done for the competitors. The firm must know who its competitors are. Most firms have direct and indirect competitors. The study of competitors is most useful if it is done with a customer-based approach. Once the firm has identified its direct competitors, it is useful to evaluate each of the competitors on the following parameters:

1. What are the firm's business goals and objectives?
2. What is the commitment level of the managers and stakeholders of the firm?
3. How do the managers of the firm view its growth prospects? Have they at any time considered its closure? What are the barriers to its exiting from the business?
4. What is its cost structure, financial structure, cash flow position and what are its assets and liabilities.
5. How do the firm's suppliers, financiers and distribution system view it?
6. What is its track record of meeting its financial commitments and other obligations?
7. Are their product specifications in line with Indian standards? Can they meet world standards or not?
8. How are their international business dealings? Are they importing and exporting or are they involved in only one of the two?
9. Where have they positioned their product—is it up-market or for the masses? Is the product pricing in line with their product positioning?
10. Are their advertising and promotional efforts congruent with their product positioning?
11. How is the firm's public relations effort rated?
12. How is the firm's brand equity rated?
13. What are the firm's core competencies?
14. What are the firm's strengths and weaknesses?
15. What are the firms unmet needs as far as the customers are concerned? Unmet needs arise out of customer dissatisfaction with a product or customer problems. There are unmet needs of which the customer is aware and there are some of which the customers may not be even aware. Competitors take advantage by advertising their own met needs and pointing out the unmet needs of their competitors.

It is useful to do a SWOT analysis at this stage for each of the competitors.

Table 10.3 sums up the different types of analyses:

Table 10.3 Market, Firm and Competitive Analysis Summary

Market analysis	*Firm's analysis*	*Competitive analysis*	*Competitive analysis*
Size of the market	Level of customer satisfaction	Sales performance	Capacity/its utilisation
Growth prospects	Brand loyalty	Market share	Product-wise market share
Profitability	Product quality	Brand equity status	Segment-wise sales
Cost structure	Service quality	Objectives/goals	Channels/sales force
Channels	Brand association	Marketing strategies	Advertising/promotion
Trends	Relative costs	Organisational culture	Reaction time
Key success factors	New product activities	Cost structure	Experience curve/exit barriers
	Managers' capabilities and performance	Strengths and weaknesses	Value chain

Once the systems are put in place, the activities mentioned in Table 10.3 become automatic and they do not take much time, while they do provide vital information for making strategic marketing decisions. For example, the capabilities of a firm could include its financial strength and marketing base and its constraints could be lack of motivation in the personnel. The analysis should take the core competencies into account.

STRATEGIC MARKETING PLANNING PROCESS

Let us understand the formal process needed for planning marketing strategies in today's competitive age. Plans made should be for the short-term and the long term. Most firms make annual plans, which are divided into quarterly plans. To be entirely market proactive, the plans should be kept flexible to enable firms to alter them according to the changing market environment. The following steps are needed for making the plans:

1. Analysis of the external environment.
2. Study of the firm's internal strengths and weaknesses.
3. Idea generation for planning.
4. Brainstorming for prioritising the ideas generated.
5. Customer behaviour analysis.
6. Competitors' analysis.
7. Market analysis.
8. Draft annual and short-term plan.
9. Final plans with forecast of sales and cash flow.

Customer's Analysis

We have discussed earlier why, how, where, when and how much the customers buy, which can be ascertained with a degree of accuracy through market research. Let us take a simple customer behaviour pattern. It includes the following elements of internal information processing, guided by external information and stimuli:

1. Belief: It is the customer's conviction and firm opinion of a product/brand.
2. Perception: It comes from a customer's recognition of a product as a desirable one based on his intuition and information gathered on the sensory plane.
3. Attitude: It is the customer's way of thinking about the product, his firm opinion about it.
4. Preference: Out of his belief, perception and attitude, the customer develops preference for one product over another and tries to buy it.

Thus we can define the multi-attribute decision-making process as, 'based on concepts of Beliefs, Attitudes, Perceptions and Preferences' which is the notion that objects in a choice set can lead to external behaviour. Each object in the set has a value on each attribute used to define the choice set.

Let us take an example to illustrate the point. The purchase of a car in a family is a major event and the decision-making process is a multidimensional one. While film stars buy cars as status symbols, middle-class people buy it as a means of transport only. Let us take four cars in the economy segment and plot their benefits to the customer. (The figures given in Table 10.4 are arbitrary and not conclusive.)

Table 10.4 Benefit Rating for Cars

Benefits	*Zen*	*Santro*	*Matiz*
Comfort	7.5	8	8.5
Economy	4	5	6
Safety	3.8	4.5	5
Brand equity	4	7	6
Service facilities	9	6	5

Note: The figures are based on a scale from 0–10.

On a different plane, another matrix can be made with benefits on one axis and decision-making concepts for each car separately, before the final decision is taken as follows (Table 10.5):

Table 10.5 Decision Concepts and Benefits

Decision concepts/Benefits	*Comfort*	*Economy*	*Safety*	*Brand equity*
Beliefs				
Attitudes				
Perceptions				
Preferences				

It calls for a three-dimensional matrix (through a combination of Tables 10.4 and 10.5), which would help the decision makers. This is done in the steps as discussed next:

1. Which attributes are used to define the product? (For example, for a car it could be its brand name, comfort or economy. For a house it could be its location, its construction and area.)
2. What is the possession level of the attributes in the product? (Is the car more economical as compared to another car in the same category.) This is really the value of the attribute, its perception in the customer's mind. Another example could be of an airline, where passenger safety is of prime concern. However, airlines never talk about the safety aspect as all airlines are supposed to be safe. They prefer to talk about the ease of getting tickets, in-flight service, food, entertainment and easy check-in facilities. And customers form attitudes on the basis of these attributes.
3. What is the relative importance of each attribute in the overall product performance? For example, while choosing airlines, is the customer more interested in in-flight service or in ease of getting tickets?
4. Do the customers weigh each of the attributes to reinforce their perceptions of overall product performance? How much weightage is given to each of the attributes and does it differ from customer to customer or is it product specific?[1]

[1] At this stage students should do an attributes–perception study for different products to find out how the customer's perceptions and preferences are formed in the Indian context. The same study can be made with international customers in mind.

It will be found that different customers have separate yardsticks for looking at the attributes. They trade-off one against the other while making the purchase decisions as can be seen from the following example. Some people buy car only for its brand name, for example the Mercedes; some buy a car for its speed and power. Yet others buy the car for its mileage only. Some look for several of the attributes in some descending order of their importance. This is called the *dictionary rule*, according to which if a customer finds two products having the first or the most important attribute to be equally present in both products, he then looks for disparity at the next level. The customer keeps doing so till he arrives at an attribute where there is a difference in the two products. (When you look for a word in the dictionary you first look for the first alphabet in the word and then the second and so on till you find the exact word.) While buying a car, would the customer prefer a lower price or a better mileage? Can the seller charge Rs 100,000 more if the car gives 8 km more per litre?

Multi-attribute analysis helps sellers understand customers who represent identifiable segments in terms of their perceptions and preferences.

Let us consider the levels of competition, or competitor's hierarchy. A competitor can be defined as a seller who competes for the same customer rupee at the widest competition level. Narrowing it down, a competitor is one who sells the same products from the same industry. A further narrower definition of competitor would be the market segment competitors.

To clarify this let us take the banking business. The first level would be the banking system, which would include banks, financial institutions, non-banking financial institutions, merchant bankers and moneylenders. The second level would be a bank that caters to the customers with a few banking products. The third level is a bank in the same town or on the same street as it closes to the customer more directly than the first two levels.

Competition is becoming diversified as can be seen from the following:

1. Banking services have competition from software companies now, as a lot of online internet banking is being done with the help of relevant software.
2. Used cars compete with the new cars.

It is therefore possible to define competition by analysing data on the customer. To do this the seller must take the following steps:

1. Define a product.
2. Let the prospective customers decide the possible uses and benefits, as many as they can imagine the product to possess. Customers can be asked to think of other ways of getting the same benefits. In this way firms can get differential competitive analysis from the customer's viewpoint.
3. The customers should determine the benefits that accrue from the use of the product.
4. The data thus obtained can be listed with priority as given by the customers.

The data thus obtained will provide the firm the information on the competitors for each product in their range.

In summary it can be said that competitor's analysis requires the prudent use of secondary and primary information to determine current and likely strategies. Customers can be employed to classify uses and benefits of products and to rank the competitors.

Let us see the assets and skills grid for competitors. These can be divided into two parts as follows:

1. **Primary:** These include product development, product quality, product manufacturing cost, product differentiation, customer satisfaction and market share.
2. **Secondary:** These include flexi-production, financial muscle, sales force, distribution network, brand image/equity, advertising and promotion, quality of service and growth of the market for the product.

Discussion Points for Students

1. Explain the principle of multi-attribute analysis.
2. Give the broad and narrow definition of competition.
3. How can a customer help in competitor's analysis?
4. Define unmet needs of the customers with examples.

* * * * * *

Market Analysis

The following need to be understood while analysing the market:

1. Market size, actual and potential.
2. Market growth prospects.
3. Market, product-wise profitability.
4. Cost structure.
5. Distribution pattern.
6. Success parameters.

Market size and its growth can be assessed by knowing the demographic changes taking place in the market, income and salary growth of people in the market and changes in government policies relating to business of the products. In the maturity and decline stage of the product life cycle, the firm has to identify the following points:

1. Price wars start if there is no product differentiation and there is over-capacity in production.
2. Level of buyer's sophistication.
3. Availability of substitution products.
4. Firms have to investigate why there is no growth. They need to see if there is a new competitive product in the market.

To analyse the profit picture of a market, the following points need to be seen:

1. The types of competition in the market, that is, is it a monopoly situation, oligopoly or fragmented market with a vast number of sellers. Market share of the competitors and how they safeguard it (whether through price-cutting or brand management) needs to be looked into.

2. How many new players are likely to join the competition? How serious are they and what is their potential threat as a competitor?
3. How strong are the substitute products which vie for the customer's money?
4. Bargaining power of suppliers.
5. Bargaining power of buyers.
6. Firms should know about their competitors' number, size, similarity of product, level of fixed costs and their exit barriers. For new entrants, the firm should know about their requirement of capital, economies of scale of production, availability of distribution channels, raw materials and product differentiations.

High growth markets can suffer from over-crowding of players, penetrating prices, technology changes and resource crunch. Environment analysis makes the firm understand the effect of changes in technology, macroeconomics, government policies, culture, demography and global changes.

SEGMENTATION AND POSITIONING

Segmentation allows firms to focus on specified market sets through positioning, to enable firms to launch a unique market programme to stand out among competitors. Segmentation is essential as the customers have diverse needs and behaviour related to market stimuli. It also helps firms as follows:

1. Planning focused marketing programmes.
2. New product launches.
3. Creating competitive advantage.

How do you segment the customers? Following are the ways of market segmentation:

1. Benefit to the customers, like better service needs, convenient pricing.
2. Product usage by the customers like heavy usage or light usage.
3. Brand loyalty.
4. Products becomes a status symbol like the Mercedes car.
5. Geographic divisions like the north, south, east and west of the country.
6. Demographic segmentation based on age, income, place of residence, sex and religion.
7. Division based on lifestyle and psychographics.

The customer is king. Let us examine the statement. A guest stays in a hotel once a year and another guest stays six times a year. It is the usage that makes the customer the king or the commoner. Table 10.6, which shows customer usage of a five-star hotel, helps to illustrate this point:

Table 10.6 Customer Analysis Matrix

Yearly expense in rupees	*10,000*	*25,000*	*100,000*	*500,000*	*1,000,000*
Tourists in %	55	20	15	9	1
Business traveller in %	1	9	55	20	15

It is easy to describe the business traveller who spends Rs 500,000 and above a year as the 'king'. (Of course, hotels cannot ignore the small customers for it is possible that today's common man may be a future 'king'. Facilities like room upgrades, free use of gym are meant to keep the 'king' coming back to the hotel.) Social class too defines a business market segment, as people belonging to the same class tend to spend their money in buying the same things.

BUSINESS-TO-BUSINESS OR INDUSTRIAL SEGMENTATION

Industries buy raw materials and components from suppliers. The suppliers segment their customers as follows:

1. Company size: The larger the company, the more products it is likely to buy and be better paymasters (as it has to maintain its reputation as a good company). Sometimes medium-sized companies prove to be good as they are in the process of growing and their reputation is vital for them.
2. Innovative companies: They have the lead user concept, that is, they want to be the first users of the product. Small companies have the advantage of being flexible in their production and other plans.

The following make a good market segment:

1. The segment should be of adequate size. There should be manageable number of segments.
2. The segments should be concrete with justified measurable base for each segment.

While implementing the segment schemes, it is necessary to combine descriptive variables like age and income for which data is available, with behaviour and attitude variables. At times, sufficient data is not available for making a proper market segment, which is feasible too (market segment feasibility depends on its size, its uniqueness and homogeneity). There are product-specific variables like, light users and heavy users and then there are general descriptive variables like demographic and geographic variables. The focus should not, however, shift on just creation of a segment and segmentation should remain a tool for gaining competitive advantage.

Summarising, it can be said that, markets are segmented to satisfy different customer needs to leverage as firm's advantage in size, location to serve identifiable groups of customers, profitably. From segmentation, the firm can target the segment or segments by steering its marketing efforts towards them.

PRODUCT POSITIONING

Product positioning involves focusing on a marketing programme that one-segment customers will perceive as desirable and which will give the firm a differential advantage over the competition. Usually, there are a number of competitors for the same segment. Positioning gives the firm sustainable competitive advantage because of its customer-specific approach. The steps needed are:

1. To identify relevant competition.
2. To draw the differential benefits and attributes significant to the segment where the firm scores better than the competition.
3. Delineate the firm and its competitors' current position.
4. Define segments preferred attribute combinations.
5. Select positioning strategy.
6. Communicate the position.

Discussion Points for Students

1. Steps in the Positioning Process.
2. Importance of communicating the difference between the firm and its competitors' product benefits and attributes. Does the firm have a position if the customer does not know about it?

In a nutshell, it can be said that:

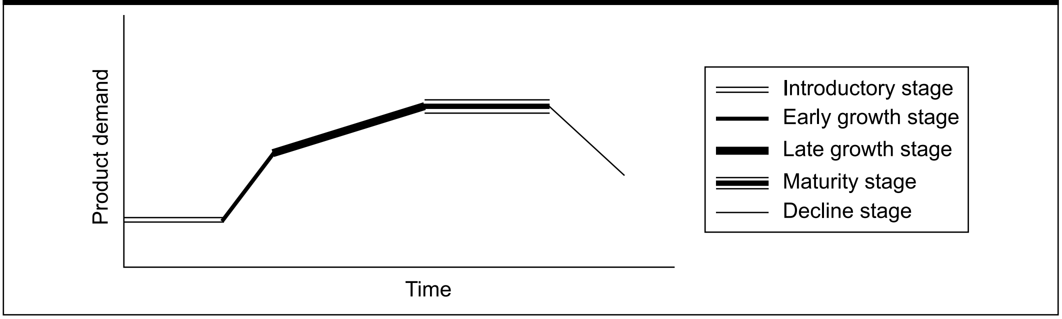
1. Segmentation allows firms to identify a potentially profitable group of customers.
2. Positioning requires firms to identify the right competitors and differentiate their products and other 4Ps, and then effectively communicate the unique benefits of these products to the target customers.

* * * * * *

MANAGING ACROSS THE PRODUCT LIFE CYCLE (PLC)

With a lot of effort going into new product development, firms have the benefit of introducing new products at some point of time. It is important that care is taken in managing the introduction of the new product to ensure profits and volume business. Later, during the growth, maturity and decline stages of the product life cycle (PLC), proper management is required. Figure 10.1 gives the different stages of the PLC.

Figure 10.1 Product Life Cycle (PLC)



INTRODUCTORY STAGE

The introductory stage is gaining importance by the day as, due to the faster rate of obsolescence in the case of most products, the PLC is shrinking. New technologies are emerging in several products to make earlier product obsolete. Firms need to capture maximum market in this stage, and as mostly there is little competition, they can charge skimming prices to get the maximum revenue. Main conditions in the introductory stage are as follows:

1. Growth is slow as the customers are not aware of the product and its concept. A lot of concept selling is required before actual volume business starts. At this stage the product itself is not well defined. The channels of distribution are also new, but since they have customers coming to them for other products, they hold the key to business and have the power over the manufacturers. In this phase, as far as price is concerned, the rules of the game have not yet been finalised. Advertising gives most of the information to competitors about the products, price, channels of distribution and its market segment as thought out by the firm.
2. Only first introduction firms (firms that bring a product for the first time to customers) have some advantage, and other leaders and followers are not significant at this stage.
3. Penetrating prices are charged for gaining and maintaining the market share. With low prices, the firms spend good money on advertising and promotion. For profits, they depend on volume business and economies of scale in manufacturing.
4. Skimming price is used when competition is yet far away. The customer base is narrow and firms prefer not to spend a lot of money on advertising and promotion. For profits, firms depend on high prices and low expenses.
5. In case of skimming prices, competition comes in fast as they see the large margins of profits.
6. Penetrating prices keep competition away for quite some time.

As can be seen, the pioneering firms have the task of developing the market through concept selling and advertising, and the firms that follow get the benefit of their efforts. For example, suppose a firm introduces computers in an underdeveloped market, it will do concept selling by telling the customers about the advantages of using a computer. They will not be able to talk about their brand say, IBM. Sellers who enter the market later, like, say for example, Compaq, will be able to build on the concept acceptance of the customers and they can advertise their brand and generate brand awareness, brand loyalty and brand equity.

Summarising, market pioneers managing the introductory stage of PLC, can pursue a strategy to capture a narrow customer base with skimming prices for extra profits or they can plan on a broad market base with penetrating pricing.

Discussion Points for Students

1. What are the benefits and negative points of penetrating and skimming pricing policies?
2. What are some of the characteristics of the introductory stage of PLC?

* * * * * *

In the early growth stage of a PLC, market growth increases and the distinction between leaders and followers also grows. Product quality stabilises and the firm's dependence on channels reduces. Hence, the power of channels also reduces giving way to advertising and promotions, besides personal selling by the firm's salespersons.

Hence, it can be concluded that the different stages in PLC are identifiable and they require distinct marketing skills at each stage, especially at the introductory stage, when both failure-risk and product–costs are high, quality often uneven and market acceptance is not fully assured.

Second, marketers have a choice of pricing the product in the introductory stage. They can either have widespread business with penetrating prices and market share or can opt to gain high unit profits with skimming prices.

COSTS, VOLUMES AND EXPERIENCE CURVE

Let us discuss how important costs, volumes and experience curve are in our strategies for marketing. Marketing strategies are needed to balance core competencies of a firm with changes in the business environment that take place constantly and are essential for the long-term well-being and growth of the firm. The basics of marketing are good strategies. Strategy needs an analysis of the firm, the competition and customers in a dynamically changing business environment.

Let us discuss the market leadership position a firm can enjoy. For getting volumes needed for leadership, the firm has to have penetrating prices. Hence, there is a cost of leadership, by way of reduced profit on unit product basis. In order to reduce the loss in profit, the following need to be done:

1. Integrating marketing and production plans.
2. Making an objective of high volume and low-cost production as a result.
3. Focus on market share.
4. Gain cost leadership.

Cost leadership is gained through the following methods:

1. Technological advancements.
2. Inputs from suppliers and customers for streamlining cost elements in manufacture.
3. Economies of scale, which help in reducing the fixed costs, as for larger production rentals, supervisor's salary and other overheads do not change and hence, unit fixed cost gets reduced.
4. Experience curve, which helps in reducing variable costs, as with the passage of time, workers get to know the work better and wastage gets reduced, and production time also shortens. With increase in cumulative workers' experience in production, workers do better. This is most valid in high-labour cost industries, complex assembly line operations and production of high numbers of standard products, which helps workers as the work is repetitive.

Experience curve cost reduction comes from the following areas:

1. Labour efficiency.
2. Work specialisation and improvement in methods.
3. New production processes.

It has been observed that experience improves performance from production equipment, changes in resource mix and material substitution. It helps in product standardisation and redesign. Experience effect results from the firm's attempt to achieve lower relative costs than the competition. Low-cost production gives the highest profit margins.

MARKET SHARE STRATEGY

International firms are constantly striving to improve their market share. For this purpose the following strategies are planned:

1. Plan large capacity production, which will help in achieving economies of scale of production to reduce the fixed costs as it would help in both domestic and overseas markets.
2. Penetrating or aggressive pricing policy helps in getting a larger market-share as more customers who are price conscious buy the product. Initially, to gain a foothold in the market, sellers resort to selling on marginal costs only where they put the price equal to the fixed cost plus a little element of variable cost. Once the market share is reached as planned and brand loyalty gained from some customers, the price is increased to include both fixed and variable cost and some profit margin is also added to it. This is especially true for price-sensitive segments of the market. The idea is to lower the price and in a way invest in future growth of the market. It can rebound if the market does not grow at all.

Let us discuss some successful cases of experience curve effect:

1. Manufacture of semiconductor devices, including integrated circuits (ICs): Initially the rejection rate used to be high, up to 50 per cent. As the firms got experience in manufacturing, the workers could reduce the rejections, and today, the rejections are less than 1 per cent. It has resulted in price reductions of not only these components, but also of the final electronic equipments.
2. Honda motorcycles reduced prices substantially (in seven years, the reduction in price was US$ 100 due to the effect of the experience curve).

The risks involved with gaining cost reduction through experience curve are:

1. Manufacturers base their production plan as per the market forecasts. In case the demand projections prove to be wrong and demand fails to come to the anticipated levels, the cost reductions become void, as then the production is tailored to the real demand only.
2. Customer's tastes keep changing, especially with regard to fashion garments where the rate of obsolescence is high.
3. Induction of new technology in manufacturing also reduces the effect of the experience curve.
4. Ego or other fixation on old manufacturing processes. Firms can argue that they have spent a lot of money on an old technology and they cannot abandon it so soon. Such a mindset might harm the growth of a firm, and also reduce the benefits of experience, as with new technology the firm can achieve an even better manufacturing cost.

Tasks for Students

1. What are the factors responsible for reduction in costs once the sales volumes increase?
2. Can managers price products in anticipation of increases in volume sales?

* * * * * *

Summarising, it can be said that:

1. Cost leadership is a powerful strategic tool where learning curve and economies of scale provide higher profits and better market share than that of the competitors.
2. Economies of scale and learning curve effects must fulfil market needs. The firm must have the resources to finance the more effective operations.

PRODUCT LIFE CYCLE—GROWTH STAGE STRATEGY

Marketing strategies are needed at every stage of the PLC to combat the market realities and the options available, as the relationship of the firm and that of its competitors with the customers keeps changing all the time.

Early growth involves large increases in volumes and an increasing number of competitors as market players use advertising to build brand equity to elevate their market share and position. The following changes take place:

1. Sales volumes increase rapidly.
2. Competition rises.
3. Product design and specifications get standardised.
4. Firms plan their advertising and sales efforts to gain brand superiority.
5. Prices may start their downward slide.
6. Distribution network gets into place and power over customers begins to move towards manufacturers from the channel members.
7. Demand shifts from primary demand, say for a PC or a car to secondary demand, for example, a Wipro PC or a Honda City car, as people/customers become brand conscious.
8. At times, the pioneer who started the sale of the product and did the initial concept selling, loses his superiority in the growth stage to other players. (Philips pioneered audio cassettes, did the concept selling in competition with records, LPs, EPs and eight tracks. They gave their technology to Sony who did better than Philips during the growth stage.)

Growth stage means increase in demand and the manufacturers have to meet the demand. Their strategic options depend on the position they enjoy in the market as can be seen next:

Let us take the firm's position to be that of the market leader or that of market follower.

Position as market leader

Options:

- Fight ……………… maintain ……………… or enhance
- Flight ………………… exit ………………… or fortify

For maintaining the market share, the firm should increase its business as per the market growth and invest in advertising and selling on that basis. For enhancing the market share, the firm should increase its market share at a faster or bigger pace than the rate of market growth.

In real life, if the firm plans only to maintain its position, it may end up losing its market share and if it plans to enhance it, it may just be able to maintain its market share as competitors are also in the fray with their plans.

The next option for some firms could be that of flight, that is, giving up their leadership position. They can either exit or fortify, that is, get in to some niche market. At times the expenditure in maintaining the leadership position is high and it eats away all the profits. Firms do plan to leave their leadership position in such circumstances.

Hewlett-Packard (HP) calculators gave up their leadership to Texas Instruments and went into the niche market. HP had started into a narrow market with low level of advertising efforts and they could raise the prices after leaving the market leadership.

Let us examine the options followers have in the market. They can either take up the leadership position or remain followers. For each the choices can be:

- Position themselves as follower in the market.
- Assume leadership by copying the leader or by leapfrogging by using latest techniques.

In case of copying the leader, the follower can do one better by learning from the mistakes committed by the leader. The follower thus challenges the leader. The follower also tracks the mistakes of the leader and turns them into opportunities. If the leader is not making a mistake then the follower has to overtake the leader by using new technology, new plans and policies so that he can leapfrog into the leadership position.

A good example of leapfrogging is the leadership position now being enjoyed by the Japanese firms in the area of cars, which was the virtual monopoly of Americans. In the area of consumer electronics also, Japanese firms have leapfrogged to leadership position. The Japanese have taken recourse to improvements in process technology and not just planned better products. Re-engineering in production technology and innovative distribution has helped them to leapfrog to leadership positions. Hence, Japanese firms have gone for high volumes and economies of scale of manufacture. The customers do not see the new processes; they see only better and economically-priced products.

The next option for the follower is to settle for being number two. There is only one number one possible and the second place helps in remaining focused (a firm advertises that we try harder to please the customer because we are number two). They can cater to the customers who are not with the leader. The leader could be in the mass market, spending large sums of money in advertising and promotion to stay number one. The firm in the second position could get into a niche market. Or, the follower could target all customers except those with the leader, that is, the customers of the firms in third, fourth and fifth position, and so on. If the follower wants the third position then he can target the customers from the followers numbering four, five, and so on.

STRATEGIES FOR THE LATE GROWTH STAGE IN THE PRODUCT LIFE CYCLE

Late growth stage in the PLC is when segmentation is a useful strategy to satisfy knowledgeable customers. Strategically, the firms need to either defend their position or find out unexplored niche markets.

The salient features of the late growth stage are:

1. Sales volumes grow slowly.
2. There are many competitors.
3. Price competition starts.
4. Excess capacity is likely to occur.
5. Channel members play one against the other to gain extra advantage.
6. Customers are very intelligent and demand a lot as specific benefits.
7. Marketing efforts focus on specified segments.

The computer industry has suffered the world over as the growth in the last 10 years reduced from a healthy 50 per cent to only 25 per cent. This has resulted in excess capacity and sellers are resorting to promotional plans. They bundle a lot of software with the hardware as sales promotion. With lower demand and reduced production, the fixed costs per unit go up.

In the late growth stage, the customer's demands are more specific and market segmentation becomes critical. The strategies, which leaders and followers can pursue, are:

1. Leaders: Target many segments.
2. Followers: Target a few segments only.

Each segment needs a different type of at least one of the 4Ps.

With excess production capacity and price pressures, firms could decide to exit from the business altogether. A firm might need money for some other business and it might plan to exit this business. Sometimes the follower might leapfrog to the leadership position and the leader may decide to exit from the business.

Summarising, it can be concluded that:

1. Early and late growth stages of the PLC have different increases in sales volumes which require different strategic initiatives.
2. Leaders and followers have separate strategic requirements in all stages of the PLC.

Tasks for Students

1. What is the difference between the early and late growth stages?
2. What are the factors that could be responsible for a firm leaving the market even in the growth stage?

* * * * * *

STRATEGIES FOR THE MATURITY STAGE OF THE PRODUCT LIFE CYCLE

When the products reach the maturity stage, their demand growth stops—it reaches a plateau. Firms need to manage the sales in this stage either for cash or they should plan product differentiation or geographic extension of the markets in the country or through exports. However, if opportunity costs exceed present value benefits, it is better to exit from the product sales.

Mature markets are known for sophisticated buyers, well-organised segments, reduced differences in products offered by competitors and stable sales volumes.

The maturity stage has the following main characteristics:

1. Constant sales volumes year to year.
2. Product differentiation vanishes as the competition also makes 'me too' products.

It is, however, not necessary that in a product range all the models may be in the same stage of the PLC. For example, in cars, one model may have reached maturity and another may be in the introductory stage.

Sustainable competitive advantage (SCA) can be achieved by differentiating one or more of the following in the maturity stage:

1. Service.
2. Distribution.
3. Advertising of intangible benefits like brand equity and service.
4. Product differentiation does not make much of an impact in the maturity stage.
5. Pricing takes a toll and it has to be competitive. In India, with new car models coming to the market, Maruti had to reduce its price.
6. Buyers are knowledgeable. They know about firms and competitive products. They are discerning and have bargaining power.
7. There are relatively few new buyers. Firms, when they want to increase sales, either take customers from the competition or they fight for the small number of new buyers. In most cases, some old buyers quit the field and new ones replace them.

Let it be understood that for most products, except for fast moving consumer goods (FMCG), taking customers from the competition is a difficult task as any action, like price reduction can lead to a price war. The lower price can, in any case, be met by the competition, and so, status quo will remain as far as market shares are concerned.

In maturity stage, leaders and followers have different strategic options available to them. Leaders may mature products as cash cows or they may harvest for profits. Followers may try to keep the market share at the existing level, grow or even exit as per the following plan:

1. Leaders: Manage for cash or harvest, that is, reduce market share by going for a niche market.
2. Followers: Maintain the market share, grow or exit.

Maintaining or increasing market share needs investments, and therefore, reduces profits. Market share ceases to be of any importance in the maturity stage. Followers can take the leadership position, if the leaders quit the business or assume the position of a follower. However, the followers must find out the reasons why the leader is leaving the top spot. For example, they must find out if the leader is quitting because there is a new technology available now. Market segmentation is the key to success in this stage. It is necessary to offer specific benefits to a group of customers or to the segment. It is of importance if the switching costs of customers for changing products are low.

Tasks for Students

1. What are the strategic implications in the maturity stage with highly sophisticated buyers?
2. How can firms keep gross margins high in the maturity stage?

* * * * * *

Let us see, how firms can keep prices high in the maturity stage. They can have distinct product differentiation to keep the switching costs high. They can build their brand equity high and have superior service. These intangible benefits will place the product in the customers mindset; keep competition away and the firm can still manage high profit margins.

Summarising, mature markets are stable with few major players and reduced product differences among competitors. These markets also provide cash for invigorating newer product concepts.

The Ford car company was down in the dumps in 1980. Then the new president, Don Peterson, told his management team to get the best features of the cars worldwide, without omitting any feature, including door handles and glove compartments size. Ford was back on its feet in less time than was envisaged.

MARKET STRATEGIES IN THE DECLINE STAGE OF THE PRODUCT LIFE CYCLE

The decline stage in the PLC is characterised by decrease in sales volume as a result of product demand, demographic changes and technological changes over a period of time. Cheaper substitute products and changes in customers' tastes also account for the decline stage.

Key factors that are present in the decline stage are:

1. Over-capacity in production.
2. Severe price competition.
3. Several competitors exit.

For covering, at least, the fixed cost, sales are made with low profit margins, as it is not easy to reduce production. However, if fixed costs are low, then the firm can plan to downsize the production. If variable costs are high, exiting is easy. However, on high variable cost it is difficult to exit the business. Success in the maturity stage through fixed costs help firms survive in the decline stage as well. With high fixed costs it is easy to get into penetrating prices.

The marketing strategies for the decline stage are given in Table 10.7:

Table 10.7 Marketing Strategies for Decline Stage of PLC

	Hospitable market	*Inhospitable market*
Leaders	Maintain lead	Harvest
Followers	Harvest	Divest

A hospitable market in the decline stage is one where the rate of decline is slow, otherwise it becomes inhospitable. Leaders in a hospitable market can keep their market going down at the rate the market is declining. For harvesting, firms bring down their market share and try to get into a niche market. In an inhospitable market, the follower's best strategy is to exit from the market. At this stage, marketing mix wars begin starting with price wars. It should, however, be understood that the players are all fighting over a shrinking pie. Penetrating prices, higher investments in advertising and promotion mark the decline stage. It becomes a vicious cycle, like the arms race of the twentieth century between the US and the erstwhile USSR and hence should be avoided by firms. Several firms decide to get out of the market. However, the firm which decides to stay on, gets into a monopoly situation and can reap the skimming price benefits till the market remains.

One firm in India was in the business of making radio valves and as most radio manufacturers changed to using semiconductor devices, other valve manufacturers in the world stopped making them resulting in monopoly for this firm. As there was a market in Africa, there the firm could charge better prices than those in the Indian market. It followed a strategy of skimmed price for a few years before the demand dwindled to zero.

In case of some products being reintroduced in the market, the last survivor gets the benefit.

In Summary, a life cycle audit helps the firms in determining where their products are placed in the life cycle so that their marketing can be strategically planned.

Hence, firms need to do a life cycle audit as shown in Table 10.8:

Table 10.8 Product Life Cycle Audit

Competitive position leaders/ followers	*Introductory stage*	*Growth stage*	*Maturity stage*	*Decline stage*
Objectives				
Target customers				
Product				
Price				
Distribution				
Advertising				
Promotion				

The audit summarises the entire PLC. It is possible to plan strategies for the entire PLC with built-in contingency.

PORTFOLIO MANAGEMENT ANALYSIS

Portfolio analysis takes into account the fact that large multi-product firms have synergies within and they need to provide resources for growing their attractive businesses, divesting poor performers with unattractive profits/or losses. They need to divert resources from mature and stable businesses to attractive promising businesses.

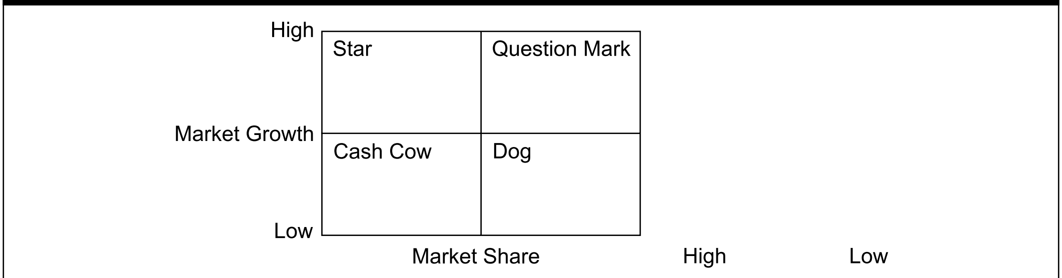
Portfolio analysis empowers managers to balance future and current opportunities by assessing business attractiveness and competitive position in a two-dimensional matrix.

Firms have a life of their own, as a single-product firm will die if that product fails. Managers want multi-product firms to ensure that some product would always be in the growth stage. Portfolio analysis is managed as follows:

1. Focus on two major dimensions of marketing strategy.
2. Look for business attractiveness to assess how good the business opportunity is and the relative competitive position to understand if the firm can be a winner.
3. Understanding of different resource needs. Some businesses need resources and others have excess resources.

Resources of a company include its finances, human resources, technology, information and managerial resources. So far the discussion has been on getting competitive advantage for individual products. However, in case of a multi-product firm, emphasis should be on managing the products together and not separately. For making an analysis of a firm's strength, the Boston Consultancy Group (BCG), has developed a matrix as shown in Figure 10.2.

Figure 10.2 Boston Consultancy Group (BCG) Matrix



In Figure 10.2, the horizontal axis shows the market share of the product and the vertical axis shows the market growth. Let us see the position of products in the different quadrants:

1. Quadrant star: In this quadrant, the market growth of the product is high and the firm's product enjoys high market share. It is characterised by the following:
   - The firm's product enjoys a strong market position, that of the leader.
   - The market growth of the product is high and attractive.
   - Competitor's better technology and superior market acceptance can make the firm's business risky, even if it enjoys leadership position.
   - It has low profits, as the leader has to spend large amounts on marketing and advertising to maintain its leadership.
   - High expenditure is required for the marketing mix factors.

   Strategic options in the star quadrant are:
   - Increase share: Invest in anticipation of higher market growth, put entry barriers for newcomers through pricing, innovative distribution and advertising.
   - Maintain share: Have good market intelligence to be able to counter their actions. Invest in marketing mix selectively.
2. Quadrant question mark: In this quadrant, the market share is low although the growth of the market is high. The position of the product is as follows:
   - The product is in the growth stage while the firm's product has a low market share.

- The firm has the opportunity to increase its market share by investing in advertising and promotion.
- It is often a new entrant. It could be that all players are new or one could have assumed leadership in the market.
- Risks are high, technology and basic product acceptance in the market is not fully established.
- There are negative profits and huge expenses in marketing for either concept selling or for increasing market share.
- Long-term and strong commitment of the management is required for the product's growth to attain star position.
- The firm must decide on how many of its products are in this quadrant and how many of them can it support on a long-term basis.
- The firm could get into some niche market segment.
- If the firm has several products in this quadrant, and it keeps them all in its product portfolio, it is in a strategic trap, because it cannot place proper resources for them and is in danger of losing all.

3. Quadrant cash cow: A firm is in this quadrant when it has a high market share but the market growth is low. The firm can reduce its marketing expenses as it is already in a dominant marketing position and can become low-cost supplier. The main features of a firm in this quadrant are:

   - Dominant market position.
   - Slow market growth.
   - Low-cost supplier.
   - Good profit and cash generation.
   - Low market risk.

   Strategies for firms in the cash cow quadrant are:

   - Manage for cash, maintain market share.
   - Cautious investment in market as growth is low.
   - Cash generation can be used for products in the question mark quadrant.
   - Harvest and go for the niche market if future prospects are low.
   - Divest if product demand is going down at a rapid pace because new technology products have come into the market or because customers' tastes are changing.

4. Quadrant dog: In this quadrant, market growth is weak and the firm has a low market share. The market situation can be described as follows:

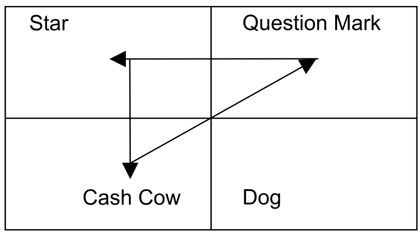
   - Weak market position.
   - Slow market growth.
   - High-cost supplier.
   - Poor or no profit and cash generation. However, by managing it carefully and by using the niche market route it can be profitable too.
   - The product could be affected by the management's ego as it once was a star product.
   - High management turnover as the product is not doing well. Many times it is said that 'customers know us because of this product.'
   - The management spends a lot of time in planning strategies for this product with hardly any gain.

Strategies for products in the dog quadrant are:

- Maintain market share for whatever cash the product generates.
- Plan for changing or adding some market segments.
- Stop all new investments in the product.
- Divest—sell the product and use the funds for other products in the question mark quadrant.
- Keep the product for any goodwill it may have or if there are strong exit barriers.
- Turn around by innovating, bring about product differentiation or downsizing.
- Get into a niche market.

The investment cycle for the BCG Matrix, therefore, is as given in Figure 10.3:

Figure 10.3 Investment Cycle in BCG Matrix

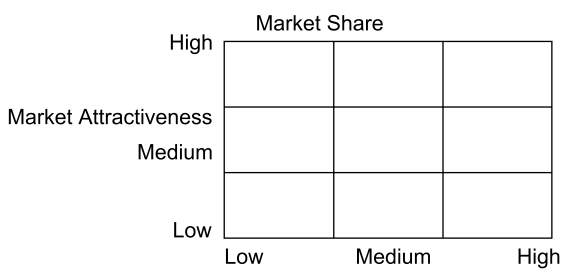


The extra cash generated in the cash cow stage is invested in the question mark stage to bring the product into the star stage. Over time the market growth of a star product goes down when it reaches the maturity stage of its life cycle and it starts having extra cash, which is invested in the question mark stage to complete the cycle.

THE GE MODEL

The BCG Matrix has been fine-tuned by the GE Model, which can be used to define markets and product positions as given in Figure 10.4:

Figure 10.4 GE Matrix



In the GE Matrix, market attractiveness and a firm's market share for a product can be plotted as high, medium and low, thus enabling the firm to understand the position more accurately and plan its strategies accordingly.

Market attractiveness can be measured by studying:

1. Market size and growth.
2. Degree of market concentration—is it localised or is it spread out.
3. Industry profitability.
4. Price sensitivity of demand.
5. Exit and entry barriers.
6. Strength of channel members.
7. Rate of obsolescence or technology change.

A firm's market share and its competitive position can be seen from the following:

1. Market share
2. Profit margins
3. Brand loyalty
4. Degree of product differentiation
5. Proprietary technology
6. Financial position
7. Personnel

Summarising, market share and market potential are mapped in a portfolio analysis to provide a visual understanding of the industry players and the attractiveness and competitive positions of the firm's products. Portfolio analysis can be used to find out where resources should be deployed and to determine the relationship among a firm's products and competitors.

Task for Students

1. Discuss the strengths and weaknesses of portfolio analysis.

* * * * * *

The study of strategic marketing should make the student aware of the necessity of the study as in today's market, the business environment keeps changing rapidly, and unless fast decisions are taken, firms are going to be left behind in the competition. It helps a firm to make long-range plans, to remain proactive and avoid fire-fighting measures, which is what is taking place in most firms today. It also helps in taking short-term action to beat the competition in unstable conditions.

Firms are able to make the right investment decisions, as also plan resource allocations in the areas that bring the desired results and avoid supporting loss-making investments. Communication through the organisation to the suppliers and buyers can be directed to help the firm in achieving its objectives. Most importantly, it helps firms in dealing with changes taking place in the business environment most effectively and to its full advantage.

Time is the essence of success in business. What needs to be done, must be done with a sense of urgency, and therefore, it is imperative for a firm to keep scanning both the general and the competitive environments continuously and take proactive decisions for continued success. Otherwise, firms will remain in the fire-fighting mode all the time in trying to cope with immediate and current problems and will not be able to take advantage of the opportunities the business environment keeps generating all the time.

INTERNATIONAL MARKETING STRATEGIES

Marketing strategy formulation has remained in the realm of the marketing director and is supposed to be based on scientific planning process. However, while line managers are asked to take the onus of strategic failures, no one has yet come up with a foolproof method of market strategy planning. To ensure the success of the planning process the marketing team should be fully aware of the roles of plans, planners and evaluators of the outcomes of the plans. The strategic plans should invariably consider the means of achieving the corporate objectives through actions taken by the team based on the declared vision of the company.

Both executing managers of the plans and the planners need to be clear of their roles in the planning and plan execution process. Planners normally are knowledgeable on the planning tools, have time on their hands and are ready to analyse the existing situation. On the other hand, managers have the authority to take action, make commitments, delegate their authority as they can access huge amounts of information available to the line managers. Managers tend to act in the following manner:

1. Action over decision after a lot of contemplation.
2. Avoid analytical processes and inputs.
3. Use their gut feeling rather than market research feedbacks.
4. Verbal orders, informal approach rather than programmed orchestration of action.

Planning International Marketing

There is a need for focus on the company's objectives and direction to guide the team in achieving the same. Strategic marketing, therefore, needs to be reoriented and revitalised as the companies adjust to external environments in order to even survive. Success of companies comes from their response to market changes, need to make companies lean, minus the pyramid of hierarchy. Flatter companies have less red tape and creation of marketing strategies becomes easy and streamlined.

The days of top-level strategy planning by the company's CEO have reached a deadend, as CEOs retire leaving a void for the followers, who remain undecided on the fate of the strategy. Earlier, after the strategy had been prepared by the marketing head, the team would work out the operational planning. It must be recognised that the success of the plan depends on a sense of ownership, amongst the people who would actually carry out the plan. While opinions are asked for, the boss dictates the strategy while the followers carry it out. With severe competition and volatile international markets, the time frame of response to changing customer needs has drastically shortened. As market insights are mostly available with the salespersons and others dealing with outside clients, companies need to develop a mechanism that gets the information collected by the front liners straight to the strategists. Only then will quick response to market needs become possible. Strategic marketing plan documents can be communicated to employees at different levels and their opinions sought, which can get incorporated in the final document. A better educated, knowledgeable workforce has, to an extent, helped in bringing about the change. While companies cannot doubt their machines and quality standards, it is simply a matter of providing a product to the market with lower costs and better features. This can be achieved by bringing the widest diversity of ideas to the teams to stimulate lateral breakthrough thinking. Using technological ideas alone would be meaningless in this age of rapid market changes. Senior marketing managers can bring in cross-functional teams to achieve broad mandate to meet the marketing challenges. Companies can, besides their internal resources, use inputs from external suppliers and the customers. The success formula can thus be described as:

1. Focusing on customers and markets.
2. Staying flexible and responsive.
3. Keeping valuable marketers at all levels.
4. Optimising management time usage.

Companies need to realise that the total quality management (TQM) type worker empowerment can become a critical force rather than just a nice concept to provide a firm a sustainable competitive advantage. It can be safely said that while formulating marketing strategies used to be an exclusive province of senior managers, today it has become everyone's effort.

Since the 1970s, marketing strategy planning has been in vogue, even while it was considered flawed. Certain changes have taken place over the past 20 years, as discussed next:

1. Planning responsibility has been shifted from staff to line managers.
2. Planning process has been decentralised to strategic business units while the key issues remain with the corporate-level planners.
3. Greater attention is being paid to changing market business and the competitive environment besides changes in the technological environment.

The planning process itself has undergone changes with less reliability on the growth share matrix, or experience curve and greater acceptance of organic techniques like scenario planning, TQM and sensitivity towards many variables like salesperson's training and advertising efficacy. Organisational culture holds the key to success of the planning process along with the organisational hierarchy. Marketing strategies represent the value base management along with motivation and behaviour of marketing team that determine the corporate success or otherwise in implementing the strategies.

Summarising, the challenges to the successful implementation of marketing strategies depend on the following areas:

1. External forces:
    - Market shifts
    - Economic forces and restructuring
    - Competition
    - Political changes and government policies
    - Technological changes
    - Environmental factors
    - Social factors

2. Internal forces:
    - Corporate culture
    - Management commitment and managerial skills
    - Financial challenges
    - Innovation
    - Operational plans
    - Marketing strategies

Planners need to perform the role of strategic programming, of communicating the plan to both internal and selected external customers. Planners need to organise control points built in the process for possibilities of timely intervention, if required. Planners need to be analysts in order to be able to make effective strategic plans. Finally, strategic planners need to be catalysts of change in the company. The following matrix (Figure 10.5) gives an overview of marketing strategy planning:

Figure 10.5 Overview of Marketing Strategy Planning

	Controls/ simulation plans		Analysing strategies	Feedback plans	Planning controls	External communications
Marketing strategic planners	Strategy formulation	Locating strategies	Elaborating strategies	Detailing the planning steps	Planning controls	
	Planners as catalysts		Dovetailing strategies	Modifying plans as required	Planning controls	Internal communications

The best way to look at the international business today is to look from the viewpoint of buyers. Hence, the selling process of the earlier times has given way to the buying process. In some cases, the buyers are easily identifiable while in others the firms have to locate the buyers and the exchange of roles in the buying family has to be understood, before the sellers can start understanding the buying process. In small purchases like FMCGs, the user is usually the buyer and decider of the brand to be purchased. For consumer durables, where larger sums of money are involved, there is a team—official or unofficial—which takes the purchase decisions, as follows:

- The person in need of the product.
- The guide who influences the decisions.
- The authority who approves of the purchase.
- The actual buyer who goes to the market and buys the product.
- The users of the product.

For example, the teenage son may feel the need of a new colour TV Set, before the football world cup. He would ask his electronics engineer uncle about the different brands and which of them gives the best value for money. The head of the family, father in most cases, would approve of the purchase and then the teenager with the uncle may go to actually buy the TV. All the family members would watch the TV albeit at different timings.

Once the buyer has decided about the product he wants to buy, he would arrange a series of discussions with his friends, relatives and experts in the field, and form his own opinion about the available brands of the product. If he has used the product earlier, he would have built attitudes and preferences on various brands available in the market. The differentiated products can cause peculiar buying behaviour when the product is costly, difficult to maintain and complex in nature. At times, price and ease of purchase can be the deciding factors. Servicing Networks can become the products USP, as is the case of Maruti cars today in India. When the level of differentiation is low, price, service and guarantee play a role in purchase decisions.

In case of products not much differentiated, the buyer decides on price and ease of buying, location of the shop and of the service centre. Once the product is purchased, the buyer/user forms another opinion about the product, which may be consistent with pre-purchase opinion or it may be entirely different, if the experience of product-use has been negative. Market communication must therefore be uniform in telling the customer about the true benefits he will accrue by the use of the product, and this must be reinforced continuously when the customer is using the product, so that the opinion remains favourable only.

A degree of difficulty in buying comes from buyer's lack of knowledge about the product. For high technology products like cars, computers and air conditioners, buyers do well to seek professional assistance to find out which type of product would satisfy their needs. The expert advice is given in the advertisements about the product, in the product literature and from the salespersons of the firm. Once a need is felt or a problem comes up, the person looks for a product, which will be adequate for his purpose and within his budget. The selection between brands is made by analysing the attributes of different brands, their prices and benefits they would provide to the buyer. The seller would do well to know the information gathering process of the buyers, the language they understand and the ideal channel of communication in order to reach the majority of buyers in the target market segment.

In products where the difference between brands does not exist, and are expensive, the buyer would opt for the one giving best service, having ease of buying like nearness of the shop and the product price. For FMCG products, which are low in cost, the buyers tend to stick to a favourite brand. Hence, to make their brand popular in a competitive situation, firms need to promote them through special offers. The market leading firms wanting to continue to dominate the market, use the push strategy of high inventory, merchandising and reminder advertising. The follower firms need to use pull strategy of heavy advertising, lower pricing and frequent promotional activities.

Buyers seeking information about the product use the following tracks:

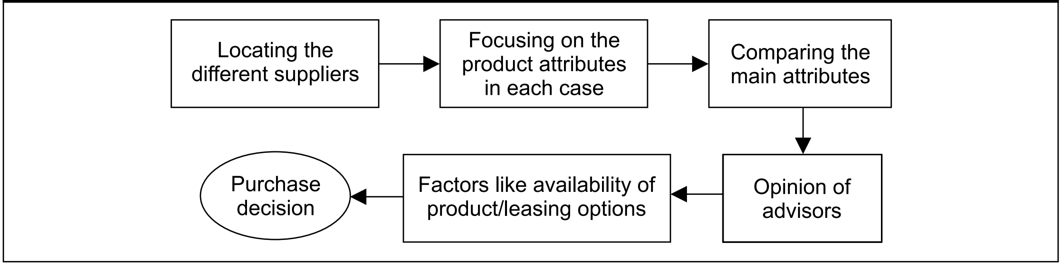
- Retail shops, dealers of the product.
- Friends, relatives, colleagues.
- Product testing like car test drives.
- Advertisements.

In order to reach the buyer, the firms can modify the product like offering bigger storage capacity in PCs, brain washing through focused advertising, redefining the main attributes of the product and laying emphasis on the variety of attributes the product possesses and more importantly the benefits the customer will obtain from using the product.

Purchase decisions are taken in the sequence shown in Figure 10.6.

Opinion of an advisor becomes important depending on the advisor, his relationship with the buyer, his knowledge and expertise on the product. Location of the shop, service facilities are other factors considered while taking the purchase decision. Decisions are also taken on the imminence of

Figure 10.6 Steps Leading to Purchase Decision



the need, like the decision to purchase an air conditioner just before the beginning of summer in the northern part of India. The decisions to be taken are as follows:

- Which brand to buy.
- Which dealer to buy from.
- Whether to pay full amount or buy on hire purchase.
- How many to buy.
- When to buy the product.

People delay purchases, as they do not want to part with the money unless it is essential to do so. The buyers view product quality, its relevance to the need, its utility value and its value as a second hand product as decision pointers.

Buyers are also aware that after sometime, they will not be using the product and will have to get rid of it. In the West, repair of defective goods is expensive; people tend to dump the old products and buy new ones. In India repair is still possible and therefore people tend to keep their products with them much longer. A new promotional plan has emerged in India—that of exchange offers—in which the buyer can give his used product to the seller, who will offer a price for it and deduct that amount from the price of the new purchased product. In many countries the owners of old cars have to pay the transporters to carry their cars to the junkyard.

International Marketing Game 10.1

The teams should hold discussions with some personnel of the company under review to find out the qualitative strengths of their workers and their learning standards. Organisations must be in the learning stage if they want to maintain and increase their market share and brand equity. Hence, organisational analysis is the most important area that needs to be analysed with care. Viewing the behaviour pattern of an organisation's people can help assess the organisational culture; do

(*continued*)

they look up and about, and moving with a purpose, or do they have a laid-back attitude towards the firm and its results. Are all the members of the firm committed to the vision, mission, goals and objectives of the firm? These soft areas of a firm provide a candid reflection of the direction the firm is going to take.

The better-managed firms permeate a positive sense of urgency in their managers. They keep comparing their own results with the results of their competitors. They keep raising the bar of excellence to push themselves to better performance, even if they are the best in the business. Innovation and creativity form the bedrock of their enthusiastic working energy, which separates winners from non-winners.

QUESTIONS FOR DISCUSSION

1. How can managers face the host government's interventions?
2. Countries have different laws for protecting consumers. How can managers cope with them?

11 International Stakeholders

AIMS AND OUTCOMES OF THE CHAPTER

Companies have been operating in the domestic markets with one real goal in front of them, that of continuously improving their bottom lines and bring in profitable results. Today, however, only those companies will survive in the domestic as well as the international markets that take care of their stakeholders. In the process they create a double bottom line, which includes, taking care of, besides the shareholders, all the other stakeholders of the company as well. This chapter gives a detailed account of corporate survival and initiates the students in the intricacies of double bottom line paramount for today's business success in the international market that covers the interests of the stakeholders besides that of the shareholders that envisages only the profit bottom lines.

Firms or businesses are a reflection of the society in which they operate. Firms have to respond to the demands of society. The fashion trends, luxury items, daily need products and the famous 4Ps—product, price, promotion and placement—have to be totally geared to a society to be successful. Similarly, society can be a reflection of how a firm operates. The much-maligned public sector firms and a few Good Samaritan private firms have been in the forefront in this area. These firms have started schools and hospitals, adopted parks and sometimes even villages. They provide these villages education and healthcare. Firms are giving away some of their profits and in the process gaining brand equity. As a next step, firms are putting-in pollution control devices in their manufacturing plants to remove pollutants from their factory discharges. Firms are creating social and environmental value, besides economic value for their stakeholders. It can be safely predicted that in the future only stakeholder-inclusive firms will survive and prosper.

Peter Drucker has aptly said, 'the talk you hear about adopting to change is not only stupid, it is dangerous. The only way you can manage change is to create it.'

The main point, therefore, is that in the twenty-first century it is the stakeholder-inclusive firm, which would attain success, as against the stakeholder-exclusive firms. Therefore, business can now be defined as follows: Business is not about right and wrong, good or bad; it is a guideline for best practices and techniques for stakeholder inclusion, which aims to deliver optimal business performance.

Firms must keep the interest of stakeholders in mind along with commercial value and social causes. The success or failure of firms will depend on the fact whether they are stakeholder-inclusive or stakeholder-exclusive in their operations. The following are the stakeholders of a firm (Table 11.1):

Table 11.1 Stakeholders of a Firm

Primary social stakeholders	*Secondary social stakeholders*
• Customers • Suppliers • Investors • Managers and employees • Local communities • Business partners • Global citizens	• Government • Society • Unions • Media and communicators • Trade bodies • Competitors
Primary non-social stakeholders	*Secondary non-social stakeholders*
• Natural environment • Non-human species • Future generations	• Environmental pressure groups • Animal welfare pressure groups

THE WORLD BUSINESS SCENE

Firms with limited liability provide opportunity to the management to take risks, which are part of entrepreneurship. However, it also creates, at times, a monster, which indulges in frauds and abuse of the power, as any student of commerce and economics in India and the world would vouch for. (So many scams, financial frauds have surfaced in the last one year, which makes one wonder about the cases going undetected.) Stakeholder-inclusive corporations create accountability and hence ensure that these scams and frauds do not occur at all.

The second point in favour of stakeholder-inclusive firms is that while we believe in free trade and competition, we do everything in our power to become the market leader, through mergers, acquisitions and monopoly.

Large firms influence world economics, create wealth and do good; but they also have the power of abusing their economic strengths.

Hence, the long-term value of a firm depends primarily on the knowledge, ability and commitment of its employees and managers, and its relationship with its customers and other stakeholders. Firms run in the interest of the wide range of its stakeholders are more likely to behave responsibly. A firm's operations need to be transparent and if firms start becoming transparent, the scam graph might go down. Firms must understand that they can successfully create both commercial and social values as they are mutually reinforcing and lead to greater stakeholder loyalty and corporate resilience. Additionally, social and commercial transparencies provide an identity to the firm as well as improve its efficiency.

It is to be noted that only economic value is shared with the stakeholders, while social and environmental concerns remain under the wraps. However, it needs to be kept in mind that a firm's involvement in environmental and social issues brings it the public's goodwill. Thus it can be summarised that stakeholder-inclusive firms will always outperform stakeholder-exclusive firms. To make an analogy between a firm and the human body, it is known that the human body functions well only if all its organs work well. Firms neglecting any of the stakeholders would be doing so at their own risk and peril.

At the present time, most firms are focusing on the benefit to their shareholders, who in a way are the owners of the firm. Surprisingly, such firms are self-centred and they create imbalances that affect people and the planet, imbalances that are dysfunctional and unsustainable in nature. The theory that manufacturing done by the cheapest labour anywhere in the world will add to a firm's wealth appears short-lived as low wages do not create markets and the products remain unsold as the wealthier markets have reached saturation point. Global imbalances are creating global crises.

Stakeholder-inclusive firms start to restore the balance by considering a variety of stakeholders in addition to their shareholders.

Looking at the free enterprises of the free markets, how free are the free markets? If we look at the US, they have imposed a quota system for imports from other countries, while due to their monetary strength they can sell their products anywhere they see a market. They make the rules of the game and expect everyone else to play by their rules. The line judges of the business game are from the affluent countries and the fairness of the judges is in the least doubtful. Is the capitalistic business controllable? If yes, who can really control it?

The current shareholder-first free market system is not delivering a just and sustainable future for the present generation and it will certainly fail the next, as some players keep winning at the expense of others. This has brought about a universal crisis of confidence in business as an institution.

Adam Smith in his *Wealth of Nations* written in the seventeenth century stated: 'Rules of free enterprise are not applied in their pure form in any market economy on earth. The rules of free enterprise completely understate the human and social dimensions.' It is as true today as it was in the seventeenth century.

Coming to market globalisation, it will result in further regression of the industrial, commercial and social aspects of the world polity. There are chances that unless care is taken, the global economy could kill social and cultural norms, local economies, ethics and religions. To avoid this catastrophe, national laws must prevail along with economic globalisation.

Business espousing free trade has a tendency of aiming for market dominance and monopoly through mergers. Mergers usually cut down on a firm's personnel and bring about unemployment. The unfortunate part today is that no one is powerful enough to put a stop to it, not even the World Trade Organization. There is no provision for trade protection for products from less affluent nations. The free market has become the hunting ground of the rich nations and it is in a mess as far as the other nations are concerned.

Firms worldwide should think what they can do for improving the life on the planet. Rich corporations worldwide should emulate SmithKline and Beecham who gave a US$ 1 billion for the eradication of diseases in the world. This is a kind of paying back of what the firm has earned from the markets. Such sustainable community developments would establish strong relationship between a firm and its stakeholders.

PROFITS—THE BOTTOM LINE

Firms in the free market economy are concerned only about the profits they are making, take home and the bottom line. They little realise that once a firm starts taking care of its stakeholders, profits become the by-products of the firm's operations and accrue automatically. They should, however, go for the double bottom line, that is, besides economic value creation, they should add social and environmental value to the bottom line.

The time has come when managers will be accountable not just for the economic bottom line but also for value creation on the social and environmental levels as well; those not performing could be asked to move out of the firm. On the other hand, those managers successful in creating economic, social and environmental value would be adding to the competitive advantage of the firm.

CORPORATE STYLES

Firms need to be managed; however, the need today is of more than just management. Corporate governance must include the stakeholders. This cycle of inclusion makes the firm move forward. Governance covers social and environment audit besides financial audit. It works well when the firm puts people and their needs ahead of its own. Sustainable governance comes from looking after the totality of stakeholder stakes in the firm. Unfortunately, firms, leaders, investors, bankers, chief executive officers (CEOs) and employees strive for self-centred success at the expense of the environment. Polluted rivers with dying fish, polluted air in the metros, bad infrastructure, treeless hills, periodic floods and droughts are symptoms of a sick nation; a nation made sick by the lust of the business leaders for money. Chimneys spouting soot-filled smoke, cars throwing out polluting smoke are evidence enough of that lust. This makes capitalism an individual pursuit. Since the surroundings are our own creation, they are naturally meant to assist us in obtaining what we desire. If we want to receive the maximum at all times, we must have an attitude of giving. If you want to receive, you must give; this is the law of nature.

Increasing the stakeholder value is the overriding moral obligation of a firm. Adam Smith's 'invisible hand' has failed to materialise, and instead, radical wealth imbalance has been created.

Businessmen are not bad people; they have to operate within an economic framework, which increasingly rewards short-term autocratic behaviour. As managers succeed in the system, they further improve the same for following the economic framework.

EMPLOYEES AND CUSTOMERS

Employees and customers must be heard. A business's long-term growth and sustainability depends on incorporating their voices in the management decision-making process and in strategic planning. Conventional business has for a long time considered employees as non-living beings, who come with their hands and feet leaving their brains at home, so that they can perform mundane tasks as told by their boss.

Customers have been classified, segmented and cast into different moulds, while in reality they are all individual living entities with separate personalities, behaviours and desires. The leaders of business should realise that if they do not listen, they do not know! Sustainable development will not come from technical solutions, eco-efficiency, risk management, helpful though these may be in reducing pollution and waste in the short term. Business leaders have to go deep into the malice facing the country and the planet to enable them to leave the world a better place for the coming generations, better than what they got. You reap what you sow, or rather your children will reap what you sow today.

Different firms, investors, bankers, business leaders, CEOs, employees and customers, separately compete for the same resources, in a win–lose scenario; ultimately it becomes a lose–lose scenario in terms of sustainability. Suffering and struggle is not inevitable. Stakeholder-managed firms divide the resources more evenly amongst the competing groups to create a win–win situation. Therefore, the stakeholders must participate in the management of the firm and their interests must be aligned at the corporate and individual level in order to best deliver what the customers and other stakeholders need. Coherent functioning of all components of a system leads to synergic strengths of that system. Corporate invincibility emerges when all the stakeholders are in a synchronous and synergetic mode.

VALUE-BASED MANAGEMENT

There is a trend today in the management of firms towards accountability and stakeholders interests; enhanced role for strategic planning; ethical standards and professionalism. Besides, familiarity with international markets is a prerequisite for a globalised economy. Professionalism can be defined as individuals working in the firm keeping the firm's interest on top and their own subservient to the firm's interests. The best situation is when the individual interest is directly in line with the interests of the firm. With scams, that is, employees cheating customers as well as, at times, cheating firms, professionalism has reached a low point, and if individuals want to progress in the firm and not just gain one time benefit, they must become thorough professionals.

Therefore, management must be regulated and controlled with auditing and benchmarking both qualitative and quantitative indicators, taking the stakeholders perceptions into account. The success of a firm will depend on its knowledge of these perceptions and the level of quality with which these are administered. Participative management, which includes all the stakeholders, provides the bedrock of principled management necessary for the creation of wealth for the common good.

A FIRM'S RESPONSIBILITY TOWARDS ITS WORKERS AND CUSTOMERS

Firms must look after the occupational safety and health of its workers. Workers in a noise-free, clean atmosphere produce better results, adding to the profits of the firm. However, if the management keeps a big difference between their home ambience and that of workplace, they are doing it at their own risk. Firms have so far been taking care of their white-collared workers only, whereas it is the blue-collared workers who produce the wealth of the firm. With reduced stress and fatigue levels, and a happy working environment, workers get motivated to work. This also reduces union activity. Exploitation of women workers by paying them less than their male counterparts for the same amount of work, using child labour and denying children their right to education have been in existence for too long and should not be tolerated any longer.

Health and safety of the customers are also in jeopardy with unscrupulous firms ready to supply substandard products. (Imagine a faulty electrical gadget, impure food items, spurious drugs and immediately the essence of the problem would come into focus.) The safety and psychological well-being of customers, who can buy products without fear of being cheated, is of paramount importance to firms. Only this feeling can create sustainable loyal and profitable relationships.

A manager must manage himself first and then his firm, and only then can he have an enriching influence on the firm's environment. The manager's own health and safety, linked with the health and safety of his workers and customers, must be taken care of in a proactive manner, as they are important in day-to-day management.

Managers need to train themselves to focus on motivating the workers and improving their behaviour. Monitoring should be as much about the physical and psychological well-being of the individual as about the usual accident statistics and costs incurred as a result. Business losses occur due to accidents and absenteeism of the workers. Managers cannot shun their responsibilities for violating international laws like laws governing intellectual property rights. China has been the biggest culprit in this area but are we far behind? Pollution and nuclear wastes will take thousands of years to clean up and till then they will keep affecting the stakeholders, the people of this planet.

A sustainable-stakeholder firm proactively creates a caring workplace and fosters dialogical mutually nurturing relationship with the customers.

ADVERTISING AND PROMOTION

Firms have been exploiting customers through ubiquitous and manipulating advertisements, at times imposing the cultural values of the firm, which undermine the customers' free choice and genuine needs. Advertising, which is customer-inclusive and participative, would build lasting relationships and increase the firm's market share on a long-term basis. The question bothering both the sellers and buyer is the product cost versus price versus quality, and advertising based on the customer's viewpoint would help solve the tangle.

SUPPLIERS AND BUSINESS PARTNERS

Firms need to provide products of outstanding quality to their customers and develop a seamless relationship with their suppliers and business partners. This leads to market power, operational efficiency and creation of wealth. (In five-star hotels, guest comments cards are available to enable the hotel to improve the quality of service.) Quality is not some predetermined physical criteria; it is a reflection of products and processes, which satisfy and ideally delight the customers. Those needs and desires in turn may be economic, social, physiological or psychological.

For maintaining the quality in the product, the firm depends on its suppliers. In the new century, there is a diffusion of traditional boundaries between firms and their suppliers as business partners. From the era of suspicion of the suppliers, we are now in an era of mutuality and transparency, where retailers and manufacturers are suppliers of goods and services as an extension of their operations.

If, in a conventional firm, there is delivery of faulty products to the customers, and the firm has tightly controlled boundaries with the suppliers and business partners, it would lead to market atrophy and operational inefficiency. Firms must expand their web of economic relational intimacy by incorporating the needs of customers, suppliers and business partners.

GOVERNMENT AND THE SOCIETY

Companies operating in host countries have a special responsibility towards the host country's stakeholders. The host government needs to be nurtured well, else the chances of the company's success in that country will be low.

Firms, through political pressure, public relations and financial muscle and influence, often unscrupulously and selfishly manipulate their relationship with society, and the legislative process for their narrow benefits. Firms' enlightened self-interest would lead to more possibilities for wealth creation, sustainable development and good management. Firms, which support the involvement of the communities in which they operate, will help create a more vibrant local economy from which they will inevitably derive benefits, moving beyond the paternalistic gift (social cause gift) mentality and fully engaging the community. Firms must gift to the society without any expectations in return, in an altruistic manner. Only then can the firm reap the benefits of increased brand equity. Firms should make profits and then give a part of it back to the society. Gifts like a flash in the pan are not going to help at all. Gifts, like adopting a village for literacy and health care, which make a difference in the life of people concerned are really required. This happens when the firms have transparency in their actions. (Most of the time, the major part of the money allotted for community welfare is used for either personal benefit, or in some corporate activity under the guise of helping others.)

Partnerships between the firm and its stakeholders are going to become the most important drivers for creation of wealth, sustainable development and good management in the future. In international business, the goodwill of the banks, capital market system and the politics of trading blocks are becoming more useful than the country's government's partnerships. Firms are now becoming truly multinational, not just for the nation, but for the world over. Americans buy more Japanese cars than their own. National identity is trying to increase the differences to set the national loyalty back in focus and they are even changing the rules of the game. However, the concepts of one world open business could just be creeping, despite the power blocks and political differences. The world economy has to cry out loud to see that these differences are removed and everybody gets a level-playing field.

The management of each country should fundamentally be based on the cultural values of the country and on the ground of spontaneous ability to maintain culture values. The use of modern tools and techniques of communication will be sufficient to compete successfully in the local and international competitive markets.

Unfortunately several firms, who resist public opinion and government regulations, try to reshape the communities and society, to feed their financial bottom line. However, the unbounded self-interest atrophies the profitability and sustainability. Stakeholder firms utilise intimate dialogical and participatory relationships with the stakeholders to build sustainable profitable firm.

ENVIRONMENTAL ISSUES

India does not need to be reminded of the great tragedy of Bhopal, when the gas leak at the Union Carbide plant caused a huge loss of lives. After several years, even today the victims' families are trying to get compensation from the firm. The oil spills in the oceans caused by leakage in oil tankers transporting oil in the world have brought about many catastrophes for the undersea flora and fauna, disturbing the ecosystems of the affected areas.

The physical environment and non-human species related issues are rapidly reshaping the fundamentals of economics and business practices. Sustainability of the stakeholder system depends on a deepening integration of environmental emergence and the firm's commitment to eco-friendly stewardship. Unfortunately, some initiatives of business enterprises are divisive, defensive or downright disingenuous. Several people are trying to make quick money out of the real concerns of the general citizens on the state of the planet.

The benefits to business of effective environment management are the positive contribution to the firm. Shared responsibility and values as the main planks of their culture would enhance the reputation with the firm and its stakeholders leading to improved morale and greater loyalty, cost saving—especially in energy and raw materials, market opportunities, contributions to efficiency, productivity and the firm's success.

Task for Students

Analyse the role of a stakeholder-inclusive firm and discuss how it can outperform other firms.

* * * * * *

SUMMARY

In the twenty-first century, if any firm considers that it can thrive with only a profit motive, it is sadly mistaken. The ultimate test of success has shifted from profit to stakeholders' concerns. The CEO who creates an environment of success with inputs from the stakeholders, is the one who will come out a winner in the future. A stakeholder-inclusive management will have far better chances of success as compared to a stakeholder-exclusive firm.

International Marketing Game 11.1

Quantitative Analysis

This is done to understand the viability of the firm and its intrinsic strengths and weaknesses. A close look at the profit and loss statement and the firm's balance sheet for the past few years gives a clear picture. The following ratios need to be seen:

1. Liquidity ratios:
   - Current ratio = current assets/current liabilities (availability of current assets to pay current liability).
   - Quick ratio = current assets-inventory/current liabilities (ability to pay current liabilities and inventories through current assets).
   - Cash ratio = cash and cash equivalents/current liabilities (availability of cash to pay current liabilities).
   - Inventory to net working capital = inventory/current assets – current liabilities (affect of changes in inventories on playability from current assets).
2. Profitability ratios:
   - Net profit margin = net profit after tax/net sales.
   - Gross profit margin = sales – cost of goods/net sales.
   - Return on investment = net profit after taxes/total assets (rate of return, management efficiency indicator).
   - Return on equity = net profit after taxes/shareholders equity.
3. Activity ratios:
   - Inventory turnover = net sales/inventory.
   - Assets turnover = sales/total assets.
   - Account receivable turnover = annual credit sales/account receivable.
   - Fixed asset turnover = sales/fixed assets.
4. Leverage ratio:
   - Debt equity ratio = total debts/shareholders equity.
   - Current liability to equity ratio = current liability/shareholders equity.
   - Earnings per share = total dividend declared/number of shares in the market with shareholders.

Besides it is important to know the following:

1. The firm's ability to raise additional capital.
2. Cost of the capital.
3. Relationship with creditors and stockholders.
4. Dividend policy.
5. Match between resources and usage of funds.

(continued)

These analyses would certainly throw up improvement opportunities in the firm. Financial comparisons should be made with the following:

1. The firm's own historical figures.
2. Industry norms.
3. Besting the line, the benchmarks.

QUESTION FOR DISCUSSION

1. Companies need to take good care of their stakeholders for surviving in the corporate world. Who are the stakeholders and what is their role in the growth and expansion of companies?

12 International Brands

AIMS AND OUTCOMES OF THE CHAPTER

Brands have, in several cases, become synonymous with product quality and its usage. Brand plays a major role in developing business worldwide, as students must have perceived, with the myriad of international brands on offer in India that have taken a vice-like stranglehold on the customer's psyche. This chapter will expose students to the role of brands, their effect on the company's bottom lines as well as the ways of strengthening brand equity worldwide.

Brand names affect the stakeholders listed in Table 12.1:

Table 12.1 Stakeholders of a Firm

Primary social stakeholders	*Secondary social stakeholders*
Customers	Government
Suppliers	Society
Investors	Unions
Managers and employees	Media and communicators
Local communities	Trade bodies
Business partners	Competitors
Global citizens	
*Primary non-social stakeholders**	*Secondary non-social stakeholders**
Natural environment	Environmental pressure groups
Non-human species	Animal welfare pressure groups
Future generations	

Note: * Stakeholders not affected by brand equity to any extent.

PRIMARY SOCIAL STAKEHOLDERS

Customers

The group of people most affected by brand names is the customer group. They learn about a product, its features and benefits it would provide to the customers. Brands often gain an emotional stranglehold on the customers who find it difficult to shake off the brand's hold on them. If a company's brand has acquired the status of an emotional anchor for its customers, it is all for the good. However, if it is the competitive brand that has occupied that place then the major task of the company is to dislodge that brand and bring their own brand to the forefront. It must, however, be understood that brand loyalty of customers has been diminishing fast over the last few decades. New, and at times, better brands make their appearance in the market place with incessant regularity.

A good product of acceptable quality that has sustained over long periods of time may do well in the market even without a lot of advertising fanfare. However, advertising a good brand would only add to its intrinsic value for the customers. The customers are looking for value for money and a good brand provides additional value that goes much beyond the accepted benefits as it adds to the prestige value of its buyers as well. Just imagine a buyer of a Mercedes car who feels proud of his car even when he is not driving in it, as he knows the ownership of Mercedes puts him in a class of his own.

Suppliers

Good brands that are well advertised cannot remain in hiding for long. The entire market place including the raw material and component suppliers gets to know about the brand and its company.

A good brand that sells well makes the company cash-rich and the suppliers remain fully satisfied regarding extending credit facility to the company. The suppliers are also sure that the company's requirements would keep on increasing as long as the product stays in the growth and maturity stage of its life cycle.

In order to have the prestige of the product rub-off on them, suppliers too advertise their buyer's names. The fact that they are the suppliers to such a prestigious company adds value to their own operations. As a consequence, they get better terms from their supplier as they are in a position to offer continuity of purchase that is dependent on the buying requirements of the company they are supplying to. They can offer better payment terms as they get the same from the company.

Suppliers do not have to spend a lot on selling nor have they to make a great deal of efforts as the company keeps them supplied with orders as long as they keep to the required quality standards and business terms.

Investors

A good brand is a guarantee that loan repayments and interest payments on the loan amount would be made well within the stipulated period. Such assurances help the company investors in making easy decisions regarding making investments in the company.

Besides easy access to money, companies with a good brand name can get better terms for loans. While the company has to provide the requisite collaterals towards the loan, the rigidity of the investors starts disappearing. Individual investors, like shareholders, look at investing their money in these *blue chip* companies, that is, companies with a good brand name and place their trust in them. They are assured of payment of dividends as well as of increase in share prices.

Managers and Employees

Managers of a company are the persons responsible for creating a good product for sale and a good brand. Once the brand is established as a good one, the managers of the company enjoy the freedom of getting the best employees to work in the company and getting the best trade partners. The employees are normally willing to work for a company with a good brand name even at a lower salary package. They believe that the prestige value of working in a company with a good brand name far outweighs any monetary loss. They remain optimistic that in the long run the company will grow fast and with it they too will grow.

Managers are able to get the best trade partners, distributors, dealers and retailers because of the good brand name of their company. The trade people believe that with a good brand they will enjoy the following benefits:

1. Good sales with less effort.
2. Lower expense in advertising, sales training, low total selling costs.
3. They can obtain premium prices for the product, product line, brands and brand extensions, where prices are fixed by the resellers on a cost plus basis.
4. Good brands provide entry barriers to outside companies when they find that the possibility of market penetration is low; thus reducing the risk of new entrants.

5. More profits through higher inventory turnover.
6. The stocks are always fresh.
7. Lower expenses in after-sales service.
8. More satisfied and happy staff, because with higher profits they get bigger pay packets and bonuses.
9. More satisfied customers who advertise the brand through word of mouth.
10. They can reduce their inventory levels by shedding some unprofitable brands.
11. Better product displays possible by using the brand's colour scheme.
12. With reduced sales time per customer, they can serve more customers.
13. Personal selling efforts become simplified when the same approach, dialogue, statements, sequence of talk are kept for segment customers (that is, the canned approach). Such an approach has been used with success in the marketplace. Salespersons need to firm up their sales talk almost in a brief repetitive repertoire (as customers do not give a lot of time to them give their presentation) after several field trials and then firm up the same for use in the future. This is the canned approach.
14. Trade channels can target better media as per the market segment, as the media would give preference to good brands.

Employees selling reputed brands are more satisfied than others. They develop pride in their work, in the brand and hence can sell the brand with relative ease. With a buoyant company, employees feel secure regarding their jobs and career prospects. They have a sense of belonging with respect to their company and this accelerates their work speed, improves their quality of work and productivity.

Local Communities

Local communities and the public at large get indirect benefits from a company which sells brands of good repute, apart from being able to purchase these brands. The company opens up job opportunities to the residents of the locality where it operates. With a good organisation around itself, the citizenry considers itself more safe and secure.

Global Citizens

Global citizens become aware of products of good brands coming from anywhere in the world and they try to obtain the products to satisfy their needs. Brands help in international business in no small measure. The success of Coca Cola, Pepsi, Nike, Ford, Chevrolet and Honda can be ascribed to the good brand image these companies built up that was spread around the world. It enabled these brands to reach a position of eminence in the world, wherever they chose to operate. With such brands, international financing, researching and locating managers worldwide becomes easy. Similarly, a good brand helps in obtaining raw materials and components more easily. Outsourcing the manufacture of the products or even sub-assemblies becomes easy.

As a good brand creates its own value, it helps the company in operating with a positive attitude where developing new products through marketing research becomes a daily activity. Marketing plans are organised with optimal precision to upgrade their market presence and improve their market share. Personal selling and service get more focused with good support from most of the customers who become loyal to the brand and the company. The customers therefore are ready to purchase new products coming from the company with brand associations.

Training of the sales and marketing team becomes unidirectional as the company forces its sales direction towards the brand, its extension and its brand umbrella products.

SECONDARY SOCIAL STAKEHOLDERS

Host Government

The host government gets benefits from a company with a good brand name as the company pays its taxes and duties on time without delays. Besides, the government draws indirect support from good companies by way of the social services they provide. Several companies in India maintain parks, run hospitals, schools and charitable trusts.

Society

Society gains from a good brand as it can look forward to better products in the future from the same company. They can also gain the company's support to become suppliers, sub-assemblers, outsourcing agents and suppliers of human resources.

Unions

Unions find that good companies with better brand equity are more amenable to improving the condition of workers and therefore negotiations with the management of these companies is smooth and needs less effort on the part of the unions.

Media and Communicators

Companies with good brand equity gain easier access to the media of their choice as the media, including the press and audio-visual media find these companies to be better paymasters and big buyers of media, which in turn adds to their prestige too.

Trade Bodies

Trade bodies like FICCI, ASSOCHAM and CII are funded by the corporate world. These bodies trust good companies for getting timely finances for their operations. In times of need, these trade bodies support them, albeit unwittingly, even more than they support other companies.

Competitors

Competitors gain from rival companies with a good brand equity as they keep them on their toes, always keeping them alert. Competitive business has in the twenty-first century become a sprint race rather than a rat race. Ability to keep continuous vigil on competitive activities is what makes for a good competitor.

PRIMARY NON-SOCIAL STAKEHOLDERS AND SECONDARY NON-SOCIAL STAKEHOLDERS

Primary non-social stakeholders are the flora and fauna of the region that get disturbed or even destroyed by pollution, which changes the ecological balance, creating untold problems for the community, the country and the human race.

The secondary non-social stakeholders are the trade bodies like FICCI, CII and ASSOCHAM that help the firms in putting pressure on the government by raising issues concerning like-minded firms. Besides they maintain statistical records about the industry as a help to the member firms.

International Marketing Game 12.1

Select a company in the international marketing business and understand how it is gaining competitive advantage in the international market, using differentiation as its key factor.

Differentiation

Differentiation can be made in any of the 4Ps, in the fifth P—personnel and in the service provided by the firm. Differentiation in a product comes from technological innovations, aesthetics in product design and profiles. Before the Kinetic Honda scooter came on the Indian roads, other scooters looked almost the same. Dove soap is declared to be not a soap; Ayurvedic cosmetics including shampoos are unique products, differentiated from the usual run-of-the-mill products.

Differentiation in price can be made by keeping either penetrating or skimming prices, giving underhand discounts, long credit periods and product bundling.

Distribution is differentiated by direct marketing, telemarketing, internet sales and interactive sales through television channels.

Advertising and promotion is full of differentiation as can be seen on any television channel, magazine or newspaper. No two products or two advertisements are similar, as the sellers believe that it is the uniqueness of advertising that catches the prospective customer's eyes.

Differentiation can come from the following areas or actions:

1. Unique product
2. Customer value
3. After-sales service
4. The firm's reputation
5. Brand equity
6. Status symbol
7. Technological innovation
8. Uniform quality of the product

Differentiation can be achieved in both line and staff functions of a firm as given here:

1. Infrastructure: Extensive customer database.
2. Top management builds its image through personal actions.
3. Human resource management encourages high-quality production through training and incentives.
4. Technology helps to produce products much superior to those of the competition.
5. Technology patents ensure that the competition does not produce duplicates.
6. Purchase of only branded components.
7. Cost-effective media planning for advertising the products.
8. Superior quality raw materials and components.
9. Products conforming to their specifications.
10. Just in time (JIT) supplies from vendors.
11. Effective advertising.
12. Timely and courteous service.

Brand loyalty brings less sensitivity to price changes. Differentiation brings with it barriers for newcomers to enter the race.

INTERNATIONAL BRANDS

Brand value or equity of a product is almost a permanent asset for a company (till something much better and lower in cost comes along in the market place). Thus, the stored value, like a tag can be utilised for gaining the same support for other products from the company by offering it under the same brand name. However, in case the extended product does not come up to the expectations of the customers, the use of brand extension could prove counterproductive, almost disastrous for the company.

Customers used to a brand would take the other product under the same brand name or brand umbrella as having the same level of quality and providing similar type of satisfaction to them. However, the success of an extended brand would come only from the money spent by the company, the importance given to the product development process. Therefore companies would be well advised to pre-test the brand extension products as these tests would not only give the company assurance of successful extension but would augment the brand value even further.

Based on this brand can be defined a set of images and associations linked to a commercial product. It has the following special features:

1. Brand distinguishes the product from similar other products.
2. Brand creates specific customer needs and expectations of their fulfilment.
3. Brand can predict buyers' behaviour of buying the product or just avoiding it.

Brand equity can be defined as the stored value built up in a brand for achieving competitive advantage. It is difficult to quantify, as there can be several ways of gaining brand equity as given next:

1. Resilience of the brand, its intrinsic strength as compared to the competitive brands.
2. Trials and test marketing of new products as brand extensions.
3. Premium prices secured by the company for the existing branded product and brand extended products.
4. Leverage of brands in gaining access to the best channels of distribution.
5. Access to the best media required by the target market segment at reasonable rates.

Brand equity, as it is known today, and the company's goodwill as it was known in the early part of the twentieth century, has a complex relationship between the product, the company, its service and its customers, and hence it becomes difficult to place it on a graduated scale. The other interesting point about brand value is that the company acquiring or buying a brand finds it more relevant than the company that possesses the brand.

Brands provide leverage for brand extensions, as several products can be sold under the brand umbrella. For example, Coca Cola offers under the same brand Cola Lite and Coke. The company offers orange and lemon drinks, too, but uses a different brand name for those products. While brand extensions offer the customers an equally satisfying product and service quality, in case the extended product fails it could affect the main brand product adversely. If Diet Coke fails in India, the company can blame it on Indian taste or the water used in making the product. With the superior hype given to Coca Cola, minor mishaps would in all probability not diminish its brand equity at all.

Success of products using brand extensions is also dependent on the company's marketing efforts. Brand heredity, however, remains useful for keeping the extensions in the customers 'top of the mind recall' zones.

At times, there is little to choose between two brands. For instance, there is little to choose between Coke and Pepsi, as both are bottled water-based soft drinks. Brand equity therefore depends on the consumer's viewpoint of brand competence, brand personality (in the case of Coke, the taste, its viscosity, its colour can be taken as projections of the product's personality), styling of the packaging and the like. Brand equity or brand value can help in the consumer's approval of the extended brands. However, companies would be wise to organise marketing research for getting the consumer's understanding of the brand extensions and similarity of consumer equations between the main brand product and the brand extension products. If there is more than one brand extension, each one would require a separate marketing research to understand the brand extensions thrust on the consumer's psyche. It can therefore be safely said that marketing research for brand value should become a continuous process in a progressive company.

The marketing research process should evaluate the consumer factors for brand extensions as discussed next:

1. Qualitative research should help evolve the brand extension channels, usage boundaries between main and extended products, extension limits like similarity in usage or complementary usage (toothpaste and toothbrush). The research should also discover new approaches to marketing techniques, like brand extension pricing, promotion and projections of brand equity enhancement or depreciation with the brand extensions.
2. Quantitative research should quantify the results of the qualitative research.
3. Secondary analysis should be undertaken to narrow down the number of products or product categories that should be permissible per brand beyond which the brand extensions would cease to have any effect on the consumers.

Companies should have brand competencies and brand personality as their research goals. If the brand defines a single product, then what is the special quality and attributes of the product that help the product deliver the benefits and also opens up opportunities for continuous usage and any additional benefits? The researcher should take the brand personality in account while conducting the research. For example, Heinz ketchup, besides its tanginess, has a viscosity, which ensures that the ketchup does not drip like other ketchups in the market. Advertisers use the personality as they project creative images for the customers. This gives them the opportunity of not only describing the features and attributes of the product but also creatively disclose the benefits the customers are going to derive from the product. The Hero Honda brand is trendy, youthful and sleek, and is meant for young bikers. IBM is a sober brand that is known for its good service and responsiveness. Pepsi, as a brand, is aimed at teenagers and those who want to have fun!

Product personality images can come from the following:

1. Product specifications and design
2. Packaging
3. Technology
4. Sales team
5. Advertisements
6. Target market segment
7. Product applications and usage

However, if the brand or brand extension behaviour becomes inconsistent then it loses its appeal and takes the customers by surprise. Brand extensions need to have the same styling, otherwise the extended brands will fail inspite of product competence. Brand competence and styling may not reflect the performance of the product at all. Brand, should therefore be separated from the product to match with additional products. In such cases, a company brand can cover the entire range of products like the Godrej brand.

Given next is an example of brand personality that can be used to project the brand:

Ragu pasta sauce has been created with recipe dimensions as given here:

1. It is a rich, thick sauce.
2. It contains only tomatoes.
3. It is sweet in taste.
4. It has added spices that enhance its taste.
5. It uses only fresh ingredients.

The character of the sauce can, therefore, be described as:

1. It is Italian.
2. The manufacturers have expertise on the subject of tomatoes.
3. The manufacturers are pioneers in the field of sauce making.
4. The sauce is considered as sophisticated and contemporary.

The marketing research team should use projective techniques during questionnaire-filling time by giving the respondents key metaphors[1] for describing the product. One research report had suggested that the users of the sauce were people with finesse and had savoured intellectual achievements, while the non-users were full of aggression. The researchers had used an exploratory qualitative research technique.

PROJECTIVE TECHNIQUES

One method of structured disguised questions is the use of the projective technique. These are most useful when the stimuli provided to the respondents are not clear or cannot be defined accurately. Else, the stimulus is not complete, is vague and yet it is important to accurately understand the responses of the respondents. Most purchases made by us have an element of subconscious content in decision-making and the respondents do not disclose their true feelings as the answers may reflect negatively on them or they want to please the interviewer with the right answer or they may not be even aware of their unconscious feelings.

In the projective technique, no direct questions are asked on the subject. Since the answers are for a vague stimulus, they tend to come from the heart and depict the true feelings, beliefs and attitudes of the respondents. So the main features of the projective technique are:

1. Unclear stimulus.
2. Incomplete stimulus.
3. Interpretation of response is important.
4. No direct questions.

[1] Metaphors can be defined as the application of a word or phrase to somebody or something that is not meant literally, but to make a comparison, for example, 'somebody is a snake'. Second, metaphors are all languages that involve figures of speech or symbolism, and do not literally represent the real thing. Finally, metaphors can be the things used or considered to represent another thing.

5. Answers are projected in vague stimulus.
6. Answers are based on true beliefs and attitudes.

Given next are some of the projective techniques used in marketing research.

TYPES OF PROJECTIVE TECHNIQUES

1. Comment on a third person's behaviour: When it is assumed that the respondent is not likely to open up on a delicate subject it is best to ask him about the possible response of a third person, who the respondent knows well enough, or whose behaviour can be judged by the respondent. An interviewer made two shopping lists for two sets of women shoppers. They included Nescafé Mix in one and plain Nescafé in another. The interviewer asked the respondent about what she thought of the two groups of buyers. While preliminary reports had shown Nescafé Mix as lacking taste, the actual picture came from these interviews: The woman with Nescafé on her list was considered as practical, a housewife who was economical, while the person who bought Nescafé Mix was perceived as being lazy, a spendthrift and a show-off. The fact that the product was a time-saving one and the issue of the product's taste got sidelined. Marketers had to take note of these true feelings in their business communication plans for changing the attitudes of a majority of women.
2. Word association: This technique is used for selecting brand names, advertisement slogans and themes, and for measuring attitudes towards a particular product, package or advertisement. For example, a whiskey maker tested the brand names Frost, Verve, Ultra and Master's Choice for his clear-coloured whiskey. Frost was seen as a modern, upbeat name and the right choice to touch the respondent's psyche, while Verve was common and Master's Choice was not bouncy enough.
3. Benefit stepladder: This is a version of word chain association. The respondent is asked about all the benefits he derives by using a product. Then he has to give two more benefits for each benefit. This keeps going on till no more benefits can be named. One benefit of a luxury car could be lifestyle projection. When asked about the benefit of lifestyle projection, the respondent may say that it gives higher status, which in turn may evoke the response of improvement in business prospects. A toothpaste may have fresh breath as a benefit, which may result in the respondent talking about gaining confidence leading to making new friends easily, added to which could be having a great time. Marketers can use the information in product positioning and for brand advertising.
4. Sentence completion: In this technique, the respondents are asked to complete an incomplete sentence. Direct questions on topics like cigarettes and liquor may not get the right response, as smokers and drinkers would say that since they enjoy these, why should anyone else have any objection? They might say that moderation is okay or that their pleasure is important to them. When the same people are asked to complete the sentence, 'people who never smoke are __________', the comments might be: they are better off, happier, smarter, wiser, more informed. Question like, 'teenagers who drink are__________' got the response that they are foolish, stupid, crazy, immature, showing off, wrong.
5. Story completion: As the name suggests, the respondents are told a part of the story. Since they do not know how the people in the story react, they have to create the end of the story based on their own experiences and attitudes. It gives an insight into the buying behaviour of the respondents in a subtle way. Suppose a new sports car is introduced in the market with innovative features and it sparks off a great degree of interest in the car. But the car does not sell.

A story can be made that a family consisting of a husband, wife and their two teenage children are returning from a car showroom when the wife says, 'the car is nice, but__________' and the interviewer asks the respondent to complete the story. Firms have used this technique for developing new successful products.

6. Story making: In this technique, the respondent is asked to construct a story, dialogue or description, which offers more leverage to the respondent than what he gets in the story completion technique. A method used is of cartoon blurbs. In the case of cartoon blurbs, one or more cartoons are shown to the respondents, where one character says something and the bubble above the other character is blank, which the respondent has to fill in. The person can write whatever comes to his mind, irrespective of whether it is guided by the subconscious or is socially wrong.
7. Third person technique: Most people feel confident when they have to comment on another person's actions or viewpoints. The other person could be a neighbour, an average woman, a boss or a teacher. Questions that may evoke a hostile reaction can be asked in this manner using the third person technique.

   Most people feel offended when asked about their unnecessary spending on luxuries instead of saving for the future. Using this technique, respondents were asked what they thought others were splurging on. The information thus received was more indicative of what respondents were spending on themselves.
8. Picture response: In this case, pictures are shown to elicit response from the respondents as stories, which they can make up after seeing the pictures.
9. Fantasy narration: Respondents are asked to talk about their fantasy about a product or a brand.
10. Metaphors: Researchers can draw out metaphors from respondents by asking them to visually represent their experiences with a product by cutting and pasting pictures from magazines. In the US, women were asked why they wear pantyhose and the response was negative: 'they wear them because they have to, and they hate them'. During the metaphor study, they agreed that wearing pantyhose made them feel sensual, sexy and more attractive to men. This information was of a lot of value to the makers of pantyhose.
11. Personification: The respondents are asked about the personality they associate with a particular brand. They are asked to give a description of the buyers of a particular brand. They can be shown a photo gallery of different personalities from which they can make their choice.
12. Consumer drawings: These can show the hidden motives or perceptions of the respondents. When asked to draw what happens when they use an insecticide, many women drew pictures of the men in their lives undergoing physical pain revealing a lot of the feelings of the powerless frustrated group**.**
13. Thematic apperception test: This is used mainly for understanding psychological problems and hence is not used in market research too often. The respondents are shown a series of pictures and they are asked to provide a description or a story about the pictures.

PROBLEMS OF PROJECTIVE TECHNIQUES

Since a lot of psychoanalysis is required during the projective process, the following are the problems that researchers face during the research process. Trained interviewers are needed for projective techniques and they are expensive. The high costs result in having a smaller sample, with increased possibility of errors. Besides the other causes of errors are given below:

1. Mostly non-probability sample add to errors.

2. Respondent's unwillingness.
3. Interpreter's bias.

Here are some projective technique exercises that will familiarise students with the technique and help in selecting and finalising brand names:

Projective Technique Exercise 1

Given next is the shopping list of two women. Describe their motivations, mindsets and attitudes:

1. Salt, sugar, cornflakes, milk, 250 gm packet of leaf tea.
2. Salt, sugar, cornflakes, milk, packet of branded tea.

Projective Technique Exercise 2

What personality traits do you associate with the following:

1. The complete man.
2. My man.
3. Shahrukh 'Mayur' Khan.
4. Just do it.

Projective Technique Exercise 3

Please fill in the blanks:

1. People who never drink are_______________ .
2. People who do not smoke are_______________ .
3. Teenagers who take to smoking and drinking are ____________________ .
4. Ladies in high society smoke because_______________ .
5. Followers of the latest fashion are_______________ .

Projective Technique Exercise 4

Complete the following:

1. All visitors to a shop appreciated a high-quality television set replete with latest features and in a large size, but nobody bought it. Why?
2. A well-liked sports car had few takers. Why?

Projective Technique Exercise 5

1. Imagine that you have seen a brand new and different palm-top computer. Build a dialogue around it.
2. Convince your friend to go with you on a trekking expedition to Ladakh.

Projective Technique Exercise 6

1. Describe how your rich neighbour splurges on expensive gadgets, which secretly you too want to own.
2. What you would do if you were given Rs 100,000, which you have to spend in a week on you personal needs (you cannot invest in bonds or saving schemes).

Projective Technique Exercise 7

Which animal symbolises the following:

1. Your best friend.
2. Your closest relative.
3. Your favourite teacher in college.
4. Your favourite film star—male and female.
5. Your favourite possession.

BUILDING BRAND LOYALTY

The business theory associated with building brand loyalty starts with the information about who are the customers, where the market is, what satisfaction the customers are looking for and how much they are willing to pay for the same. After getting the answers for these questions through marketing research, the company positions the product in the market place as discussed next:

1. Find out the right market segment for the product.
2. Focus the 4Ps directly towards the selected segment. For example, the product and its packaging should be directly as per the needs and requirements of the segment customers. The distribution channels should be selected with the best access to the segment customers and the advertising campaign should use the media best suited to the segment customers and the message should reflect the language best understood by the customers.
3. Offering surprise gifts, extra unasked for guarantee and replicating these every time a purchase is made can strengthen brand loyalty. However, the most important ingredient for brand loyalty will always be top-quality unsolicited service with courtesy provided to the customers. Imagine a general manager of a hotel who, whenever he is free, seeks out guests, personally serves them the dishes they order, helps them carry their luggage in case the bell boy is not present for whatever reason. Or can you visualise a senior doctor wheeling in his patient in the absence of a ward boy.

Sales promotion plays an important role in building brand loyalty. The sellers should be able to assess the time when the customer loyalty is on the decline and at that point of time they should start a promotion campaign to bind the customers likely to drift away to the competition.

The sellers should plan the following activities in the decline stage of brand loyalty:

1. Understanding the reasons for the decline with the help of marketing research, focusing on the specific requirements of the customers and then, without any loss of time, modifying the 4Ps to suit the customers.
2. Product innovation or giving something extra, like an accessory with the product. Product or service differentiation.
3. Personalised service tailor-made to suit the individual customers, tastes, moods, personality and status are offered. In some hotels, for example, for well-known guests, the checking is done in the hotel rooms or suites allotted to them and not in the lobby as is customary everywhere.

The guests are taken directly to their rooms, offered a complimentary drink and then they are requested to sign the registration coupon. You treat your guest or customer like a lord and you may end up becoming one, as your custom grows along with your profits in geometric or spiralling proportion.

POSITIONING STRATEGY

Positioning strategy for a brand can be organised as follows:

The defining idea could be the satisfaction or delight level of customers along with the advertising slogan.

The market category would decide the following areas:

1. Endorsements of the product: Who are the best community leaders for endorsing the product, the people who would relate to the attitudes, thinking process, desires and needs of the customers.
2. Proof of the product's success in usage through customer certificates.
3. Certification from technology research organisations regarding the product's quality standards.

The brand can be for a product or a group of products or for a company. The company has to decide on methods to build a naming convention that would include the following:

1. Product features.
2. Product attributes.
3. Product benefits for the customers.
4. Service that goes with the product sales.

In advertising campaigns, the message should cover the demographic segmentation along with the other segments like geographic, psychographics, income and benefit segments. The customers must be given the right inputs through the campaigns. The media used should have effective presence in the segment and allow for product exposure on a long-term basis.

The company can acquire moral leadership of the product by meeting the aspirations of the customers and offering them quick redress of complaints.

Most chief executive officers (CEOs) have understood the importance of having and continuously improving a good brand and therefore have taken the role of leading brands upon themselves. Brand becomes a bond between the buyers and the seller.

Brand interests focus on relationships, the current theme of marketing—relationship marketing—that could be as given next:

1. One to one in case of the service industry and at times in the case of business-to-business situations.
2. One-to-many in the case of the fast moving consumer goods (FMCG) industry.

Customisation of brands in case of consumer durables could be affected by offering customers customised brands that could have a combination of the brand's name and the customer's name. As an example, LG could sell their specially-made refrigerator for Mr Gupta as LG Gupta refrigerator. Maruti could sell its Esteem as Esteem-Mathur to Mr Mathur. Wrapping the product with specially printed paper with a message like 'specially packaged LG TV for Mr Verma', can make the customisation of the brand and packaging more easy. It can even go to the extent of saying, 'specially selected components for Mr Verma used in the TV'. Certain large retail chains get products made which carry the retail chain's brand imprint. Companies that sell to these retailers find it difficult to establish their brands, unless there is dual branding for products, one for the company and one for the retail chain. The company's brand effect, however, gets diluted by doing so and hence is undertaken only for really big outlets with large volume sales.

A good acceptable brand spreads and flows to cover the segment through advertising and word-of-mouth publicity. Brand story telling process starts with awareness and goes through the following milestones: It starts with awareness then it goes to involvement followed by trial of the product, leading to commitment, interest to positioning in the person's psyche, leading to product adoption and communication with friends and relatives before it goes through the repeat purchase process.

A company's CEO has to recognise the brand identity and use the proper channels as discussed next:

1. Advertising, promotion, personal selling.
2. Publicity, packaging, retailing, training the retailer's sales team.
3. Industrial package design, product aesthetics, counselling the prospective buyers.

Brands get their focus and strength from the following:

1. Product names.
2. Trademarks.
3. Branded components used.
4. Affiliate names that gain strengths from the more famous 'big brother' brand names of the company as compared to competitive brand names.
5. Phonetic spelling like seezers for scissors, cofi for coffee.
6. Misspellings like Kwality Restaurant.
7. Homonyms, that is, names that are spelt alike but mean different things.
8. Family names like Birla, Tata, Modi.

Good brands are created by interaction between the design team of the company or its advertising agency. It can take the process and people of the company into account. Once the team has suggested a brand name, it is carefully spread in the localised market place and feedback is taken about its effectiveness from the following:

1. Selected customers
2. Trade partners
3. Service providers
4. Media planners
5. Discussion forum
6. Focus groups
7. Stakeholders

Researchers can use top-of-the-mind recall questions and get answers from the selected customers and stakeholders and the feedback can be used to take a decision about the brand name.

Creating brand loyalty requires interface with the product users from among the community members where the company operates. Besides this, time needs to be spent studying the customers' purchase process, the products they buy, the price they pay and their usual business terms during such purchase action.

It is useful to learn the profiles of the customers as discussed next:

1. Demographic
2. Technographic
3. Preference yardstick
4. Possible substitute products and brands in the customer's mind
5. Expectation options regarding product benefits for the customers

Companies must understand the primacy of selling locations as they represent distance travelled and time spent on each purchase. Does the seller accept any penalty clause in case of non- or below par performance of the product? The other areas for brand strengthening are:

1. Information on product updates.
2. Replacement of unacceptable products.
3. Proper documentation of such defects.
4. Help desks for getting redress on complaints.
5. Reduction in search costs incurred by the customer before he actually makes the purchase.

No company can ignore the *buyer factor* in determining its brand policy. A company has to create value with its brand for the customers. For this purpose, it needs to get continuous feedback regarding the brand's efficacy in the market segment for which the product is meant. Good brands get into a win–win situation as the customers become loyal while at the same time they help to add more customers to the list of the product's users through word-of-mouth publicity. Companies further augment their brand equity by proclaiming to the customers and prospective customers that in case of any problem the company guarantees 24 hour replacement, seven days a week without any problem and without questioning the customer. It may be understood that these companies are so sure of their product quality that they can offer easy replacements knowing fully well that such an event is highly unlikely to happen.

Brand names should become the product identity and for that purpose they should be relevant, simple, trusted through high quality of product and customer service. Brands reduce or can even eliminate the competitive risk factor. However, the level of identity should not be such that it makes the brand a generic name, for instance all hydrogenated vegetable oils are called Dalda and all motor oils are referred to as Mobiloil although both Dalda and Mobiloil are only brand names.

The seller of a good brand should feel privileged and this feeling can be achieved by the following means:

1. Pre-release special test marketing.
2. First-use premium.
3. Availability of search tools, like industry diaries, press releases, internet browsing tools.
4. Availability of product, timing the product launch to coincide with the festive season, or time when companies pay bonuses to their employees.

5. A company can think of a limited edition of the product or it can flood the market with it. This could create curiosity in the customer's minds or it could make the customer believe that the product has no takers.
6. The company has to decide if it wants to market the product in the local market, nationally or in the international market. Brand names need to be selected accordingly. In the international market the brand name could mean different things in different languages and this should be a major consideration while selecting a brand name for the international market.

If a company sells several brands then it should find if any cross-reference of brands is possible or not, as it could be used to augment the brand value.

USE OF BEST PRACTICES

Best practices for the development of brands are:

1. The brand name itself should add value to the product. When a customer buys the product, the purchase should boost his ego, his status as a person and reflect his intellect as a discerning buyer. The brand should reduce the product selection time, save money spent in searching for the product, avoid the need for testing the product and give consistent quality of product and service.
2. The brand management should be ready to provide high-quality service seven days a week, 24 hours a day to enable customers to fruitfully use the product continuously.
3. The product should match international quality standards even if it is for local sale, as it must be able to successfully face international competition in the domestic market.
4. Product marketing efforts, including sales promotion, advertising, personal selling, publicity and public relations, must all be integrated for the achievement of the common goal of the company. Brands should provide the core for such efforts.
5. Brand development activities should be done on a time frame basis to keep tracking the market position of the brands.

INTEGRATED FOCUSED COMMUNICATION

Business communication is carried out between the sellers and the buyers. Advertisements, promotion and personal selling are some of the ways in which this is accomplished. The main purpose of communication is to improve brand benefit valuation by the buyers. Second, the brand should reduce the thinking time of the buyers.

Advertising is used to evoke positive feelings for products and minimise or totally eliminate negative thoughts about them. As the customer uses a product, he gains experience in its usage. If the experience is interesting and a happy one, it leaves a positive attitude towards the brand in the customer's mind. The customer starts looking at advertisements about that product to further reinforce their attitude and belief about that product. In such situations, the product goes into the psyche of the customer and 'gets the top billing for brand recall'.

Such brand reinforcement helps the company in improving the peripheral and associative effect that covers the brand extensions under the brand umbrella, homogenising the stranglehold of the company's products on the customers. Such advertisements create a conditioning effect as the customer's mind gets conditioned to receive the message given through the advertisements in the manner it is meant to be received. Hence, the repeat value of advertisements leads to conditioning and associative effects that help in selling the brand extensions too with the same brand equity. Advertising campaigns create an aura, help in repositioning not only products but also customers' feelings about a company's products.

A good example of brand repositioning is from the US, where a soft drink company was selling the drink 7 UP. Most people felt that it was a lemon drink for the elderly. However, a survey showed the company that lot of people preferred non-cola soft drinks. They started calling 7 UP an 'Un-cola' soft drink and targeted a wide market segment including teenagers and improved their market share.

International Marketing Game 12.2

The team should understand the way the company is trying to create cost leadership. Most of the discerning customers are looking for value for money products. With better looks and mass production, Japan has taken a lead in car entertainment electronics and watch sales the world over. With lower production costs, they are able to use the money for research and development, product innovations and for fighting price wars if required. Cost is built up of two factors:

1. Fixed costs
2. Variable costs

The fixed costs include the cost of money, salaries, rentals and depreciation, while variable costs include cost of raw materials, labour and consumables. Fixed costs per unit of manufacture get reduced when the economies of production scale are achieved and variable cost gets reduced with the effect of experience curve.

Suppose the total fixed cost of manufacturing 10,000 cars is Rs 3,000,000. The fixed cost per car comes to Rs 300. Now if the production is increased by 20 per cent, that is, to 12,000 cars and if the fixed cost does not change, then the fixed cost per car would come to Rs 250 per car (worked in a straight-line method). Such an ideal situation may not occur as an increase of production by 30–40 per cent would result in an increase in the total fixed cost to some extent with an increase in the number of shift managers, requirement for bigger floor space and the like. The firm can get the benefit of larger purchase of raw materials, bigger, and hence cheaper, advertising campaigns because of the bulk rates offered by the media.

Variable costs decreases due to the time experience factor. When the workers start the manufacture, in the initial stages the rejection rates are high. As they become familiar with the manufacturing process the rejection rate falls and this decreases the cost of raw materials and labour.

(*continued*)

A typical example is of electronic semiconductor devices. In the beginning the rejection used to be up to 70 per cent and hence the price of integrated circuits was between Rs 200–300. Today, when the rejection rate has reduced to 1 to 2 per cent, the prices have come down to Rs 20–30 only.

Firms use the low-cost benefit to their advantage as follows:

1. Enjoying extra profit and using it for expansion.
2. Innovating the product and other Ps for maintaining their market share.
3. Cross Parry, that is, fighting price wars. This is done by hitting the competition at its weak links if they start a price war and hitting the competing firm in its vulnerable market.

Costs leadership in firm works as follows:

1. Flatter firm, less costs.
2. Employee-oriented policies to reduce their turnover.
3. Training to reduce wastage and increase productivity.
4. Long-term relationship with the vendors.
5. Economies of scale in production.
6. Experience curve to reduce variable costs.
7. Long-term advertising budgets for lowering costs.
8. Expert servicing for being right always.

QUESTION FOR DISCUSSION

1. How can MNCs improve their brand equity?

13 International Marketing Concepts

AIMS AND OUTCOMES OF THE CHAPTER

The study of this chapter will help students understand marketing from an international perspective as it deals with some basic concepts and useful ideas.

To understand marketing it is useful to understand some basic concepts and useful ideas:

MARKET SEGMENTATION

Market segmentation is required because products can be used or are needed by only a part of the entire population. The concept of segmentation focuses on the particular group or class of customer who would be definitely interested in the product. A history textbook will be of interest to students and teachers of history. Spices used in cooking will be needed by cooks, both in homes and in hotels. Can a customer group afford to buy a product although it may be requiring the same? For example, can low-income people buy an expensive watch worth Rs 4,000? The population can therefore be divided on the basis of whether they belong to a rich income group, poor income group or mid-income group. Depending on the product to be sold, further narrower classification can be done.

TARGETING MARKETS

Markets have evolved from purely physical locations where buying and selling took place to supermarkets where a lot of products from diverse manufacturers are sold under one roof. Then there are need-based markets like healthcare products market, sports goods market. Markets can be for different age groups, different religious groups. Today there are also people markets, where jobs are offered to jobseekers. Marketers have to decide which market they want to sell their products and these become the targets for the firm.

CUSTOMERS AND PROSPECTIVE CUSTOMERS

These are the people or organisations that either need a product or could be brainwashed into buying a product. As they have a number of sources from whom they can buy, the sellers need to have really efficient persuasion or brainwashing techniques in order to get them to buy their products. At times, buyers are also users, but it is not always so. For example, one family member might be buying toiletries, which are used by the rest of the family. The decision to buy one particular brand could be the buyer's, or it could be of the family member who uses that product; in India servants do a lot of the shopping for the family they work for and they are mostly guided by the dictates of the family members.

WHAT THE CUSTOMERS NEED

Starting from the physical needs of food, clothing, shelter, healthcare and education, people have a need for recreation, sports, entertainment and other leisure-time activities. Sellers stimulate these needs by educating the customers through advertisements and personal selling. Some basic products like food are demanded by the buyers. However, the choice of branded food keeps increasing, for example, for a product as common as salt several brands are available. Sellers keep focusing the attention of buyers on their product by communicating with them about their brands. Demand creation is done for totally new and innovative products like cellphones. For cellphones, a lot of concept selling about the product usage was done even before the product was offered in the market. It must be accepted that somewhere in the mindset of the target customers the latent need for cellphones existed. At times, however, with demand growth and increased competition, improved or more innovative products have to be introduced in the market, which helps in retaining or improving the firm's market share. Firms with better research and development facilities fare better in competitive situations. Attractive products or good-looking packages help in selling as they catch the customer's eyes. Apart from this, social and peer pressure gives buyers the required motivation for buying a product, even if they do not really need it. Credit cards or other credit sales make people/customers buy more than their need or more than they can actually afford and hence several social scientists consider pressure selling as an incurable modern-day malaise.

PRODUCTS AND SERVICES

Products and services satisfy the customer's needs or provides the benefit sought by the customer. Branded products have an identity of their own and their sales can be quantified accurately. Firms look for enhancing the value of their brand through its quality, advertising and personal sales.

PRODUCT BENEFITS AND ITS VALUE TO THE CUSTOMERS

This is an important area for sellers as the greater is the customer's perception of the product having value for money, the greater are the chances of his buying the product. Value to the customer can be defined as:

Value = product benefits and its emotional value to the buyer as compared to its cost to the customer, including the cost of time and effort.

SALES CONTRACTS

For sales to be made in a legally valid and binding manner, the following conditions must be met:

- There must be at least two parties to the contract, both have something for the other; one may have a product and the other money to buy the product.
- Each party can offer its product/money and also accept the offer.
- Each party accepts the other as a reasonable party and the contract as genuine and reasonable.
- The product or service on offer is not a contraband item like drugs or an illegal activity like an offer to kill someone. Hence, it can be seen that when one party gives a gift to another party it

cannot be considered a sale as there is no payment involved in the transfer of goods from one party to the other.

The ideal sought by sellers is that the buyers become their friends and to do so they sell quality products, offer good service and attractive terms of business, which, over a period of time makes their customers their friends interested in a long-term relationship with them.

RELATIONSHIP MARKETING

Relationship marketing has become the keyword in today's marketing language with a lot of effort and money going in to it. Marketers having to cover a large geographic area need to have sales outlets at numerous places in their target market place. They need a distribution channel, which goes up to the retail stores where the customers go to buy their products. New channels like the internet and teleshopping have come up to enable customers to have interactions with the sellers without them having to take time off to do shopping. Sellers need to communicate to the buyers all the time about their products, their benefits and prices, which is done through personal selling at the retail outlets and through advertisements. Interactive channels like the internet and teleshopping help customers gather information about products and also buy them.

COMPETITION

As there are several sellers of the same product, the customers have those many choices. It is competition that keeps firms on their toes, as they have to constantly endeavour to provide a good product at a reasonable price from which the customers can derive benefits they want and which makes them happy and delighted. Competition can be of several types:

1. Similar product competition where competitive products offer same or similar benefits to the customer at the same type of prices. In the Indian automobile sector, Maruti Zen, Santro, Matiz and Indica are in the same competition bracket.
2. Same industry competition where the firms make the same products. For cars, all the car manufacturers, irrespective of the size and price become competitors.
3. Usage competition is where different products providing similar usage are considered to be in competition. For cars, motorcycles, scooters, buses become competition.
4. Competition for customer's money is where different products compete for the customer's money. For example, car sellers can consider sellers of consumer products or vacation travel as competition as they too want the customer's money.

MARKET ENVIRONMENT

Competition is a significant factor that creates the business environment for the firm. Besides, its suppliers, buyers, new competitors planning to enter the field and substitute product sellers make up the environment in which a firm operates.

The general environment factors that affect marketing are demographic, socio-cultural and political-legal factors, the country's economics, technology and global business. Marketing mix factors are the factors that assist the marketing team in achieving the targets.

Marketing Mix Factors

In each of the product cases, there are some common and some different factors for profitable sales. These are called the marketing mix factors, which can be compared with ingredients like herbs, oil, condiments, vegetables and meat, using which a chef can cook a delicious meal. Similarly, the marketing manager can plan profitable sales using the following factors, known as marketing mix factors:

1. Marketing research
2. Product
3. Packaging
4. Brand
5. Trademark
6. Label
7. Price
8. Transportation
9. Distribution
10. Sales promotion
11. Advertising
12. Retail sales and merchandising
13. Personal selling
14. Credit and its control
15. Training of sales personnel

PRODUCT

There are the following types of products in the market for which different firms look for markets:

1. Consumer durables
2. Fast moving consumer goods (FMCGs)
3. Industrial capital goods
4. Industrial raw materials and components
5. Industrial consumables
6. Service
7. Events
8. People
9. Places
10. Properties
11. Firms
12. Information
13. Research outputs

PACKAGING

An attractive package definitely catches the customer's eyes and it becomes an important factor especially for FMCG sales. It also helps in brand and product recall, when the customer goes to the market to make a purchase. Packaging helps in shelf displays and shops can utilise the shelf space optimally with the right kind of packaging. It is also used in advertising of the product, thus, creating a 'top of the mind' recall for the product.

BRAND

It is the most visible form of advertising, as the product gets noticed in the shop counters, display windows and shelves. Buyers can be prompted to buy once they have seen the product's brand. An easily pronounced brand creates a positive memory of the product in the customer's mind. Repeat advertising is used to strengthen the brand name. The value of the brand or its equity determines its usage and sales. Brand names are normally chosen from the following:

1. Manufacturer's family name.
2. Town's name, for example, Champagne.
3. Product use name.
4. Fancy name, which the manufacturer likes.
5. Name which is easy to pronounce.

TRADEMARK

Sometimes the brand name and the trademarks are the same. Trademarks are legal signs by which the products are identified. Two competing products cannot have the same trademark. Any infringement of the trademark act can be sued in the court of law.

LABEL

The trademark or the brand name is usually placed on the package, which is called the label. Label gives, besides the brand name, the product specifications, method of use, ingredients, expiry date, and date and batch of manufacture. It is mandatory by the government to give some information like the expiry date for products like food and medicines.

PRICE

It is perhaps the most important of the factors as it defines the buying decisions for most products. Price changes bring about changes in quantity; what is sold at a higher price may limit buyers, while a lower price encourages them to buy the product. Most products have price elasticity of sales. However, some products do sell in certain markets irrespective of price variations, which may occur, like the high value Mercedes car. While offering a price to customers, sellers give the price in one of the following manners:

1. Price includes excise duty and applicable sales tax.
2. Price excludes sales tax but includes excise duty.
3. Price excludes both sales tax and excise duty.
4. Furthermore, the applicability of price at which location, like ex-factory, FOR, FOB, C&F and CIF.

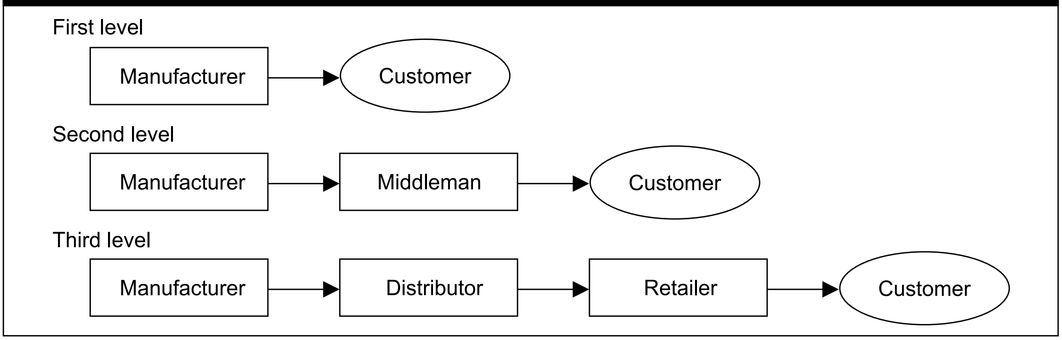
TRANSPORTATION

Movement of goods from the manufacturing plant to the distribution system is important because the timely availability of goods can make sales easy. A competitive situation calls for speed and economy in the movement of goods.

DISTRIBUTION

Ideally, if the manufacturers can reach their customers directly without the middlemen, a lot of savings can be made as then no middlemen commission needs to be paid. However, in reality, it is seldom possible and that is the reason that a large range of distribution channels is required. Some of the popular chains of distribution are given in Figure 13.1.

Figure 13.1 Chains of Distribution



Detailed discussion on distribution, which include having firm's own shops and franchise operations is given in a separate chapter.

SALES PROMOTION

Sellers resort to promoting their products by offering incentives to the buyers, which makes the purchase attractive. These days it is common to find 'buy two and get one free' offers. Different sellers are offering different types of incentives. These promotional offers are for both the customers as well as dealers or retailers. As the customers including retailers are offered an instant benefit, they are gently forced into buying the product.

ADVERTISING

Sellers are also trying to get customers' attention on the product through non-personal communication by advertising through suitable media. In the last 10 years newer media have emerged and with computer-aided design facilities, advertising has become more forceful as well as widespread. Advertising provides customers the right to choose a product, which best fulfils their needs. It is also used to combat severe competition.

RETAIL SALES AND MERCHANDISING

Retail shops bring consumer products close to the customers and they fulfil a major need. In each shop, there are a number of products and several brands of each product. How these are displayed and which brand gets the best place on the shelf are important areas of merchandising, which help firms in increasing sales and gaining market shares.

PERSONAL SELLING AND SALESMANSHIP

With the best of displays and products it is not very likely that the firm will get the eye of the customer. It is the persuasiveness of the seller or his salesman, which makes a difference. The salesman has to learn to talk the language that the customer understands best. The salesman should be able to drive home the benefits and the satisfaction the customer is going to derive out every rupee he is spending in purchasing the product.

Consider the following scene:

> At a readymade garments shop, a salesman is trying to sell a shirt to a customer and he says, 'Sir, the shirt is made of terry silk, has good pastel shades and stud buttons'. The statement is a fair description of the product.

Another salesman says, 'Sir, this shirt will just flow smoothly on your body as it is made of terry silk, its shades go well with your complexion and the matching buttons create a distinctive look.' This statement catches the mind of the buyer instantly.

CREDIT AND ITS CONTROL

A credit buyer normally buys a little more because he is not paying for the product just then. It is human psychology that immunes the buyer of the thought that finally he has to make the payment and perhaps with interest. Credit can, therefore, be used judiciously as a sales tool with ample safeguards against fraudulent buyers.

TRAINING OF SALESPERSONS

As new products are introduced by a firm, new markets emerge with increase in competition, and consequently the firm has to innovate and bring into place new methods as well as structures and systems. The sales people must be, therefore, continuously trained into the latest so that they always keep their work optimised.

The Concept of Buyers and Sellers

From the early days of the twentieth century, the concept of sellers and buyers has undergone major changes as discussed next (see Table 13.1):

Table 13.1 Changes in Industrial Concepts

Period	*Concept*
1935–55	Production
1956–65	Product
1966–91	Selling
1992–to present	Marketing/customer

In the stage when the prevalent concept was that of production, sellers in India believed that whatever was produced in large numbers and sold widely would be bought by the customers.

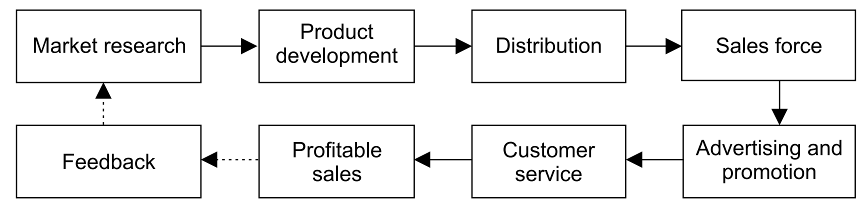
During the product stage, the focus shifted to the quality of the products as people became more quality conscious than before. During the period when the concept of selling held sway, competition started raising its head and sellers had to resort to aggressive selling techniques. Advertising became a useful tool in the game of marketing.

Marketing concept focused on the customer's needs, combating competition through better advertising and promotion plans. From that period on, the customer became king, pursued by competitive sellers. Business is conducted by firms in order to earn profits and for businesses to grow. This is possible by proper selection of customer groups through market segmentation, understanding the five needs of the customers and dovetailing products to meet those needs, selection of the right distribution channel and well-directed communication to the customers through advertising. Profits thus generated help the firms to grow further for gaining greater market share and profits. The decision-making process in the customer-based concepts of marketing starts with the customers and also concludes with business relationship with the customers. The ideal system would be when the entire organisation, including functions other than marketing like finance, production, human resource development and purchasing, all view the business from the customer's point of view. Only then will the firm's customer orientation become complete. Customers have their needs, which firms want to satisfy with their products. A customer's needs are:

1. Known needs: These are needs clearly perceived by the customer, like the need for a house.
2. Unknown needs: These are needs that are not clearly perceived by the customer like the need for a low-cost house in the vicinity of an office and school complex.
3. Unspecified needs: These are needs like the need for easy power, water and phone connections in the house.
4. The need for customer's delight: These are needs like free membership of a nearby club with the purchase of a house.
5. The need for social approval: These are needs like the need for one's peer group's and friend's approval and appreciation of one's house.

To be really effective, the marketing efforts need to have a continuous approach, as can be seen in Figure 13.2.

Figure 13.2 Continuous Marketing Process



An integrated plan for marketing results in profits and growth for the firm. For other departments or functional areas like purchase, the purchase manager should visualise the ultimate customer's benefit by purchasing the raw materials of the right specifications with no compromise on quality. This would minimise the rejection at the initial inspection stage, improve productivity and reduce losses. The human resources manager should keep the customer in mind while recruiting the marketing personnel or even training his own team of human resources people to enable them to better understand the needs of marketing in terms of training and motivation.

PROFIT AND PROFITEERING

Profits come from sale of a product at a price higher than the cost to manufacture it. However, if the price is kept high, especially in monopoly markets, it is called profiteering and it is unethical and illegal in most cases. In today's world, which is full of competitors, the price keeps getting depressed because of competitive forces. A firm has to provide value for money and customer delight to be able to claim a good price with reasonable profit. It is the firm's ability to deliver the goods at a reasonable price that ultimately benefits the firm with profits. However, if the customers do not derive the expected benefits from the product, the sale and profits will be only short-lived. Competition is always around the corner watching the firm's activities like a hawk and proactive actions for customers' benefits are required for really sustained profitability. Price plays a significant role in determining a firm's profits, and yet price is most of the time linked with product quality or customer's perception of the product quality. The idea of increasing sales by lowering price could become counterproductive at times.

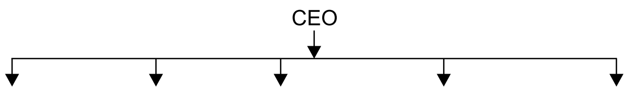
Firms need to assess the needs and demands of the target market segment and provide the product to satisfy the same with more value addition and cost-effective marketing than their competitors. Firms must also adhere to the laws of the land about product usage safety in order to be of real value to the customers.

Firms need to optimise their plans, policies and actions in order to come out on the top and remain there. A firm's organisational structure should be dynamic and flexible enough to cope with environmental changes and should have the ability to fine-tune itself for achieving its goals. Mobilisation of resources, timely and correct deployment of resources and process control all add up to benefits to the stakeholders of the firms, like its buyers, suppliers, employees and the government. Doing good to the buyers should not be at the expense of the suppliers. A firm should have a highly-motivated workforce who will generate top-quality product and services for the ultimate delight of the buyers, and be able to bring in repeat orders, better profits and dividends for the stockholders. It is said that successful people do not do things right, they do the right things. Efficiency in people can be defined as doing things right and effectiveness as doing the right thing. Hence, if a firm is doing the right things rightly, it is both efficient and effective.

Firms need to have core competencies in most of the functional areas of business like resource generation, marketing, purchasing, manufacturing, human resource management, product development and government relations. The best technicians can become the best service managers with motivation and training. With flat organisations, multi-tasking and cross-functional teams are the order of the day as without these the goals of the company cannot be achieved.

The usual functional structures of firms are giving way to cross-functional structures as shown in Figure 13.3.

Figure 13.3 Functional Structures



The usual functional structures of firms are giving way to cross-functional structures as shown in Figure 13.4.

Figure 13.4 Cross-functional Structures

	Resources	
	Product development	
Suppliers ←	Demand management	→ Buyers
	Order fulfilment	
	Controls	

As can be seen in cross-functional structures, product development involves research and development, purchase of technology, market assessment or market research for the product. Demand management includes setting up distribution systems, sales force management and order fulfilment relates to manufacturing, inventory management or even outsourcing the production activities. Such cross-functional activities help in bridging the connectivity of functional areas and hence prove their worth.

A firm needs the following resources for its operations:

1. Financial
2. Human
3. Technological
4. Infrastructural
5. Information
6. Capital/manufacturing goods

With the rate of obsolescence shortening the product life cycle (PLC), it may be prudent not to invest in capital goods and instead of buying equipment they can be leased or rented. Outsourcing of sub-assemblies manufacture can be another option. Most shoe suppliers in the US have outsourced their product to firms in the Far East.

ORGANISATIONAL CULTURE

Organisational culture is one of the important areas that creates excellence in firms and leads to the achievement of the goals of organisations. Organisational culture can be described as 'The way we do things here'. It is what an organisation will do and will not do. The culture of a corporate entity can be felt, seen, but it is difficult to define. There is culture of brisk polite activity, culture of sluggishness, of customer orientation and of employee orientation. Firms with a laid-back culture find it difficult to shed it and become more active and dynamic. However, it is possible to change the culture of a firm. It is a long process that needs patience, perseverance and continuous effort.

Informal groups and teams play an important role in modifying a firm's culture. It starts with infusing stories of success in the informal groups, which have an effect on these groups over a period of time. The firm's goals and objectives, its vision and mission statements must be known, understood and accepted by the entire team of the firm. All the workers and management must be committed to them. It is the unity of purpose that helps a firm to become one holistic organisation and helps build its cultural base.

Congruence of culture becomes extremely essential in case of mergers and acquisitions as any major cultural clash could jeopardise the success of the new organisation. The best of financial resources, technology and human resources cannot ensure success unless there is a cultural meeting of minds as well.

With the ever-changing environment of business, most firms are busy trying to dovetail their operations to suit the environment. Firms that remain proactive, which have long-range policies and plans and people committed to them are most likely to become achievers.

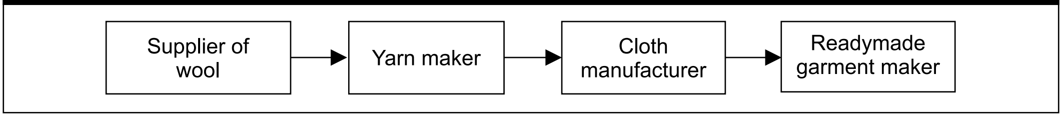
A firm needs to have a customer-oriented approach to its operations. It should focus on making and keeping its employees motivated and committed. It should have a quality plan for continuous improvement. It should understand its responsibility towards its stockholders. The leadership of a firm should have a far-sighted approach for creating a future for it.

Marketing strategies of planning a proactive stance in the market come from a value system where excellence is encouraged, despite emphasis on teamwork. Leadership qualities in a person at any level or hierarchy need to be given due recognition. The best employees are committed to customer satisfaction and customer delight at all times.

SUPPLY CHAIN MANAGEMENT

A firm that can optimise the operations of its supply chain gets an in-built competitive advantage. The supply chain for a readymade men's suit manufacturer can be seen in Figure 13.5.

Figure 13.5 Supply Chain Sample



If the supply chain can be managed such that each buyer gets products when needed and of uniform quality, they can all optimise their operations. The concept of JIT can be introduced effectively only when the entire chain is ready for it.

STRUCTURAL SUPPORT TO THE CUSTOMERS

In France, the telephone company gave its customers Minitel a computer terminal free of cost. Using Minitel, customers can access, through the French telecom network a large number of services like ordering air tickets, buying items of daily needs, purchasing cinema tickets and a whole lot more. Such gifts make the customer loyal for a long time.

INDIRECT FINANCIAL SUPPORT

'Our motor bike gives 20 per cent better mileage than the competitive bike. Hence if you run our bike for 2,000 km per month, you gain up to Rs 10,000 a year.' The salesperson should be ready with actual calculations to prove the point. In industrial selling, that is in business-to-business sales, it is at times easy to demonstrate the potential savings that a customer may make. The customer starts questioning the competitors about the savings they can provide. 'Use our lubricating oils and the wear and tear of your equipment will reduce by 10 per cent.' Even better is saying that your maintenance time will reduce and you will be able to produce 10 per cent more because of this factor.

MARKETS—THE CUSTOMERS

A number of new innovative products were introduced in the second half of the twentieth century like television, speed cars, SST jets and in India several products got a countrywide spread like telephones, railways and air travel. Therefore concept selling was a regular feature in the market place. Today, for most products there are a number of suppliers and marketers have to be fighting competition. Only for a few new products like mobile phones did the concept or the idea of using the product have to be accepted by the target market segment and hence concept selling had to be resorted to.

Sellers want to know on a continuous basis the reasons why customers buy a particular product in comparison to another product. Buyers are looking for the following: One or more than one benefit that the product is offering to the buyer. How these benefits compare with those offered by the competing firms. As against the benefits what does it cost to obtain the product, use it and finally sell it as junk? Buyers balance the costs and benefits and decide to buy the product or not. Even while buying low-cost items or making instant decisions, these activities take place, albeit quickly, in the buyer's mind. A major deciding factor is product usage, which is guaranteed by the sellers through a written guarantee as also availability of service personnel, spares at the right place and time and at the right price.

Brand image plays a major role in the buying decision, besides product benefits in relation to its price, the salesman's behaviour and thoroughness of the service needed and provided for optimising product usage by the customer. Product price, the time and effort it takes to organise the purchase and the customer's mindset are the factors that are weighed against the benefits the product offers.

In case of industry purchase, there are other extraneous factors that decide the purchase:

1. The purchase manager's personal likes and dislike regarding the product, brand or seller's people.
2. The management's policy of buying only the lowest-priced product (its use may turn out to be the most expensive in the long run).
3. The management's long-term relationship with a seller.
4. Underhand dealings between the seller and the buyer.
5. Proximity of service facility of a product.
6. Product endorsement by close friends and associates.
7. Buyer's innovative nature.

Marketers learn fast that by providing better benefits and value for money to their customers, they always win the race.

CASE STUDY

ABC Cooperative Sugar Mills was coming up in western India. The order for the plant and machinery was placed on a firm in Maharashtra. Tenders were floated for transportation of the plant and machinery from Maharashtra to north India. The lowest tender got the order.

Now imagine each piece of large equipment being hauled by two long wooden rails fitted with steel wheels of 6-inch diameter pulled by two oxen covering about a 1,000 km. There were at least eight derailments and 90 per cent of the equipment reached in damaged condition. It is difficult to calculate the resultant losses. Such buying decisions need careful study of the actual delivery process and not just the one promised by the seller. Hence, the sellers must give not only value for money but a proper usable product too.

There is a saying, 'you can use the earthen pot for cooking only once'. If the product does not satisfy the customer, there is no repeat sale to the same customer. Besides, one dissatisfied customer can influence potential customers into not buying the product through word-of-mouth publicity.

It is important to keep a track of customers' buying patterns. There are usually three types of customers: (*a*) company's customers, (*b*) competitive customers and (*c*) non-customers.

Firms want that customers from the other two groups should shift their loyalty to them. There are basically three methods of increasing a firm's market share:

1. Take the competitor's customers.
2. Get new customers.
3. Convert non-loyal customers to loyal customers.

Firms trying to steal customers from their competitors must be aware of the fact that their competitors are trying to do the same thing. A lost buyer, one who has gone to the competitor, can provide valuable information about the lacunae of the firm. He can provide information about where the problem lies—whether it is in the product itself, whether the competition has come out with a better product, whether it is due to the firm's terms of business like price or whether it is the firm's service. Gaining a lost customer is a more difficult task than gaining a new customer. Firms need to have senior people listening to the negative aspects of their business from these customers. Most firms have a complaint cell. Some have suggestion plans also where customers can offer suggestions to the firm for improving their operation. Listening to and taking care of complaints and giving serious consideration to the customer's suggestions not only help in keeping the customers loyal, these are also useful ways of augmenting customer relationship.

Firms adopt customer surveys to understand customers' attitudes towards the firms and their products. Service industries like hotels, airlines and private telecom firms resort to these surveys. Some firms have a continuous system of conducting these surveys for keeping their systems and skills honed all the time. The surveys provide loyalty indicators for the firm's customers and firms can device strategies on their basis to upgrade the same.

Customer forms the market and a lost customer is market lost. If it is better technology that takes the customer to the firm's rival then the firm can offer sops like discounts prior to improving and may be bettering its own technology. If it is price or some competitor's promotional scheme then firms must be able to react in order to regain the customer. Otherwise they can plan to hit the competitors where it will hurt them and the firm will regain its market share. This is known as Cross Parry.

The best approach is that of being proactive to the market needs and demands and firms should be able to fulfil these in their own innovative style before the competition tries to catch up with them. The secret is to remain one step ahead of the competition all the time. This calls for a high degree of management skills, a sense of urgency and proper timing.

PLANNING FOR SUCCESS

In the last century, success came from a firm's own plans for profit and growth. If the firm was able to declare dividends to the stockholders, it was enough. Today unless the firm is ready to take full care of all its stakeholders, success may remain illusive.

Stakeholders can be categorised into two types:

1. Internal stakeholders—the management and the employees.
2. External stakeholders—the suppliers of the firm, buyers, distribution channel members, financers, bankers, the government and the community.

While the management tends to look after itself, are they taking good care of the employees too? Similarly, if the suppliers do not get a fair deal from the firm they will not be loyal and it could cause problems for the firm. The buyers' group is naturally important for the firm, as after the initial purchase if the firm wants them to keep buying their products, the firm must build relationships with them. Distribution channel members are, in fact, the first buyers and they must be always on the right side of the firm. Finance is the bloodline of any firm and therefore financers need to be nurtured, not just by abiding by the written agreements, but also by the firms behaviour pattern. Bankers provide working capital; they should be treated as financers. The government of the land feeds on the taxes the firm pays. Firms must obey the laws of the land. The community provides the firm with employees and as a good corporate citizen, the firm must look after the welfare of the community. The firm should not pollute the environment by releasing noxious fumes, polluted liquids or emitting a lot of noise.

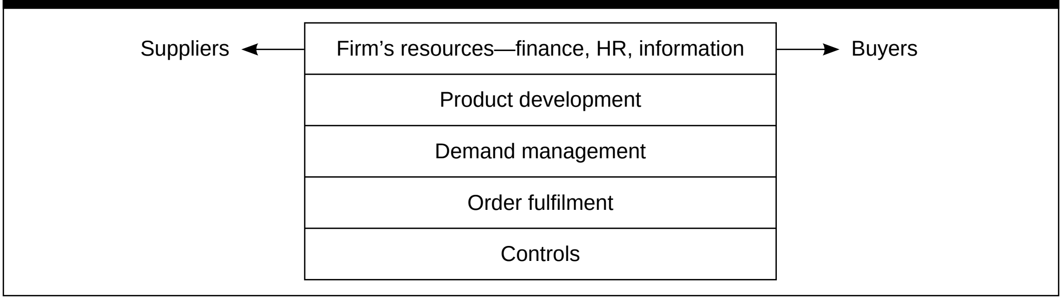
In order to be competitive (by gaining competitive advantage), firms should optimise their cumulative skills—managerial, technical and financial. Gone are the days when achieving excellence in different functional areas like marketing, finance, production and human resources management firms could thrive in competitive markets. It is important to have multi-tasking forces, cross-functional teams in order to not just survive, but excel in the competitive world. Stress should be on gaining superiority over competition rather than maintaining status quo. In today's market you either go up or go down. There is no place for remaining where the firm has been (in fact, because of competitive forces, if a firm tries to increase its position, it may end up where it started).

High performers work on cross-functional skills, unlike what was happening in the past when excellence in functional areas could see firms reach the top. Outsourcing has become an important tool in the manager's armoury. Manpower, technology, infrastructure like transportation and handling of materials, power and market research can well be outsourced with less cost and better results. Savings as a result of lower costs and managerial time that is freed up as a result of outsourcing can be utilised for strategic planning.

It all boils down to providing the customers value for money and mental and material satisfaction in their buying transaction with the firm. And this has to be done in better ways than what the competition is doing. Only then can firms gain a competitive advantage. Hence, firms have to start working towards core processes rather than working on functional areas.

Core processes are shown in Figure 13.6.

Figure 13.6 Core Processes



As can be seen, the resources of the firm are outside of the firm. Once the firm decides on entering a business, it has to acquire the same. Next, it has to identify the product it wants to market. It starts with idea generation, study of the market (market research) and then obtaining technology by purchase, reverse engineering or through research and development. Once the product has been selected it is test marketed. It is followed by creating demand through advertisements and promotional plans, marketing channels and retail outlets. The last step is delivery of the product against orders and getting paid for it. The sales cycle gets completed and from this point it gets repeated for further orders. For the system to succeed the management needs to have controls to ensure that the plans and policies laid down by the firm are adhered to and it remains on track for profit and growth. An important aspect is retaining old customers and getting new ones. It is mainly the quality of the product and the firm's service that are responsible for this.

THE MARKET AND ITS CULTURE

According to Maslow, people have some basic needs like, physiological needs like the need for safety, sociological needs like the need for recognition and the need for self-actualisation. To satisfy these needs people need products and in this way we are all customers at one time or the other. Our actions are guided by, among other things, our culture. Likewise, firms too have their own culture and while it can easily change its plans and policies, it is not easy to change its culture. Culture is a way of life, shared experiences, stories, beliefs and ethical standards. In India, there is a big culture-linked market for ethnic products and products connected to religious activities.

So if people are customers and customers are markets, where do we start looking for them and how do we retain them? The secret is to get more customers, make them happy and satisfied, loyal and while doing so find more customers.

Firms need to select their business area, either through the geographic selection method or through business-to-business marketing in industry clusters. Since, these contain customers and also non-customers, market segmentation is required at this stage. Next, through advertisements and personal contacts, the firm has to close on the most likely customers. Giving them product demonstrations, presentations, supplying samples will convert them into customers. However, to retain them and make them loyal customers, the firm has to supply good quality product and service. Customer complaints, howsoever small they may be, must be looked at with a sense of urgency and the cause of complaint removed fastest. A satisfied customer may help the firm get 10 more customers, while one dissatisfied customer will definitely ensure the firm does not get 100 customers through word-of-mouth publicity.

Today, firms want not just to satisfy the customer, but also to delight the customer. A delighted customer is a loyal one, usually buys the complete range of products offered by the firm, gives positive word-of-mouth publicity to his friends about the products and mostly ignores competitive promotional plans. Selling after sales, involves, periodic contacts with the customers with new developments in product ranges, new promotional plans, reaching out with newsletters. In other words, building relationships with the customers—relationship marketing. Even for FMCG, sellers are trying hard to make the customer a client by offering gifts, which are found in product containers. (The client has a one-to-one relationship with the seller, like a doctor's clients or a lawyer's clients.)

Following is the list of what is sold and bought in markets:

1. Products
2. Service

3. Manpower
4. Technology
5. Property
6. Ideas
7. Organisations
8. Information

Products can be divided into the following categories:

1. Fast moving consumer goods
2. Consumer durables
3. Industrial capital goods
4. Industrial raw materials and components
5. Industrial consumables
6. Services

An element of service is always included in all products. Customers have become discerning and they demand top-quality products and its associated services. In order to upgrade this aspect of the business, the firm's management has to adopt total quality management (TQM).

In TQM, firms endeavour to keep upgrading the quality of their products and services continuously in a planned manner. A firm's long-run profitability depends on its customer's total satisfaction, which in turn comes from adopting TQM. Firms get better customer satisfaction and resultant favourable response, which improves the profit picture for the firm.

Let us understand what quality of a product or service is. Product quality can be defined as a product meeting its specifications, which have been finalised by market research conducted to ascertain market needs. A quality product is one, which while in use, satisfies or delights the customer.

The American Society for Quality Control defines quality as: the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs. Maruti and Honda City both meet with their own respective quality standards and customers consider these products to be of good quality. However, Mercedes, which gives a better performance than these two brands, is known as a better or higher quality product.

With training in quality management and worker empowerment, the worker in a factory and field salesmen can keep improving the quality of their product/service delivery and this is the essence of TQM.

GAINING AND RETAINING CUSTOMERS

Firms that plan for short-term gain or profit tend to lose in the long run. Careful planning and sustained efforts to work the plans can make firms successful. There are four stages to the planning process:

1. Environment analysis
2. Strategic planning

3. Plan implementation
4. Built-in control systems

Environment Analysis

Firms operate in the business environment of the area/country in which they operate. The business environment consists of the general business environment and the competitive business environment.

The general business environment factors are:

1. Demographic: Factors such as population density and growth, migration from villages to towns, income dispersion, languages spoken and the number of people who subscribe to a particular religion form the demographic environment of the business area the firm wants to cater to. For example, in India, lot of villagers keep shifting to towns. Sellers can look for opportunities that arise out of the migration of people.
2. Social environment: Social changes like the increase of women in the workforce provides a big opportunity for sellers of home convenience products like vacuum cleaners, washing machines, ovens, ready-to-cook foods.
3. Cultural environment: India has a rich cultural heritage. Each state of the country has its own set of festivals in addition to national festivals. Sellers find the festive season in India a veritable boon for their business as traditionally a lot of new products are purchased during festivals like Eid and Deepavali.
4. Political environment: Laws on pollution, emission norms for vehicles form part of the political environment that influences businesses. Political will is required for sustaining a liberalised economy. The government and its policies influence the way foreign players function in the country. Firms need to understand the political environment to be able to take full advantage of the same.
5. Legal environment: The legal system of the country lays down the standards of business and commerce. Consumer protection laws are meant to ensure that no seller can take any individual for a ride, by overcharging or selling wrong products.
6. Macroeconomic environment: The macroeconomic environment covers the prevailing interest rates, balance of payment situation between countries, monetary reserves and surpluses and exchange rates which all affect how a firm works.
7. Global environment: The world economy and world politics are increasingly getting intermingled as national political interests get subsumed in economic interests. With several countries, including China, opting for an open economy, competition is forging ahead in countries, including India.

Michael Porter's Five-force Model, as discussed in Chapter 1, best describes the competitive environment.

As is well known, existing players provide the greatest challenge to a firm. Proactive firms try to create entry barriers to dissuade new firms from entering the business. Patented products, unique technology, strong hold on channel members, tight control of suppliers and product use delight of the buyers prove to be good barriers.

If the rail fare goes up people could find it better to fly. Firms must know the substitute products and their marketing strategies to be always ahead of them. If there are a large number of suppliers, then, firms can pick and choose and keep their bargaining power. However, when there are only a handful of suppliers and they have many buyers, it is useful to have long-term relationships and contracts with them.

In the same way, if there are only a few buyers and the firm has a number of competitors, the buyers will have the bargaining power. It is best to provide value additions and superior service to the customers. Brand equity provides the market edge to firms.

Let us reiterate the obvious, markets or customers are people with cash. The marketing team of a firm tries to lure them into buying their products in preference to competitive ones. The products comes from manufacturing (own or outsourced), and the raw material, manpower, technology and information about the market are the backbone of the final marketing operations.

It is also true that a firm with no specific aim goes astray. Therefore the management must provide a vision to the organisation, get it accepted by the entire workforce to make it a way of life in the organisation.

CORPORATE VISION

Corporate vision is an idea, theory or commitment for doing good to known and unknown persons—the customers. In public life and in politics too, only the visionaries have achieved great successes. Mahatma Gandhi had a vision of an independent India, with villages as the core of developmental activities. Pundit Nehru's vision was of an India with a socialistic pattern of society. In business, Rahul Bajaj's vision can be described as providing a low-cost two-wheeler of international quality to the middle and lower-middle class of the country. There is no mention of setting up of factories, marketing and making profit in the vision statement. Vision is inspirational in nature. It can be written down or even be unwritten. It should be accepted by the firm's team and they should be committed to it.

STRATEGIC MISSION

Strategic mission of an organisation defines its business, gives it its character, its reason for existence, boundaries within which it operates, what it will do and what it will not do. It also provides behaviour norms for its members. The mission statement is the firm's image before its stakeholders. It tells what the areas the firm wants to enter are and with what product ranges. It is the binding force for the different activities of the firm.

GOALS

They are the mission statements concretised, which give a firm its economic and non-economic areas of operation. They provide a firm's team with a clear guideline about actions needed to be taken.

OBJECTIVES

The objectives are the end results for which the firm uses its resources and skills. They are time-bound, talk of trade-offs and serve as bases for resolving conflicts in the firm.

A FIRM'S BUSINESS

A firm has to decide the range of activities in which it will operate as follow:

Industries

Firms have to decide which industry it wants to work in. Will the firm work in the area of consumer durables, FMCG or industrial products. If it chooses to work in the field of consumer durable, will it work exclusively with cars, motorcycles or white goods like refrigerators or will it work with a combination of consumer durables?

Products

A firm will have to decide about the range and usage category it wants to work in. For example, will it be a single hotel or a hotel chain, a five-star hotel or any other category?

Skills and Competencies

Companies have to decide how they will get technical know-how, whether they will purchase technology or develop it through research and development. Companies also need to decide about assimilation of technology and technology upgrades needed for gaining and maintaining its competitive advantage.

Geographic and Income Group Market Segmentation

The company needs to decide whether its products are elitists, for the common people and will the firm sell only in the local market or in the entire country. It also needs to decide whether it will go global.

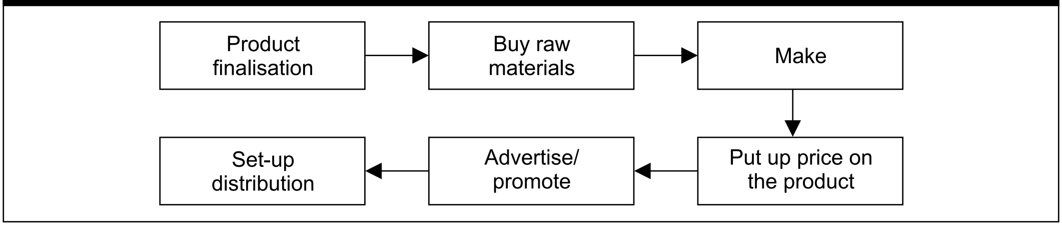
COST CENTRE OR PROFIT CENTRE APPROACH

Large businesses, which become unwieldy for management, are made into cost or profit centres where each centre must look after its interests as a separate unit and show its profit. Many loss-making areas of firms take a piggy ride on profit-making areas with no justification at all.

From the mid-1970s, major changes started taking place in the marketing process worldwide and its effect reached India in the 1990s.

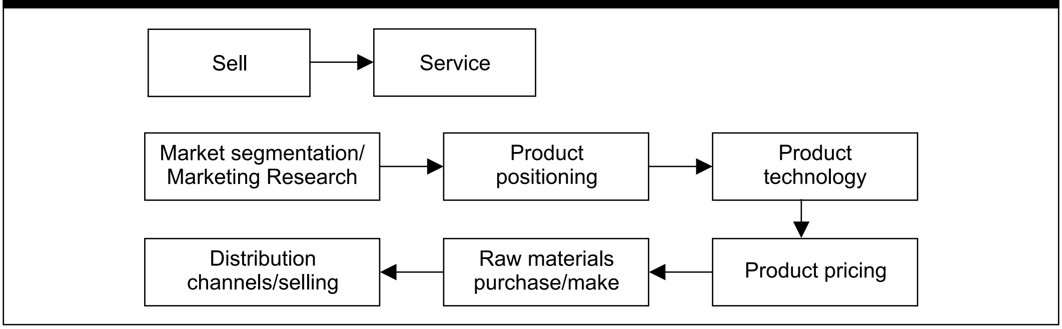
The pre-1970 process can be described as shown in Figure 13.7:

Figure 13.7 Marketing Process before 1970



The post-1970 process is shown in Figure 13.8:

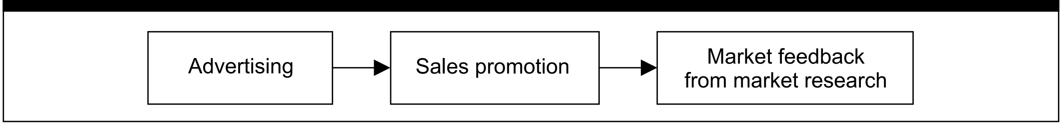
Figure 13.8 Marketing Process Post-1970



It can be seen that there is greater emphasis now while planning marketing strategies on market information, competitive actions and changes in the business environment.

Plans for the marketing department of a firm consists of the following three areas as shown in Figure 13.9:

Figure 13.9 Marketing Planning Process



Market Situation Analysis

This consists of understanding the general and competitive business environment and the opportunities and threats that the firm faces. Marketing research gives an idea of the business potential in the given market segment and information about new competition. An understanding of consumer behaviour and trends of growth or decline in the market can also be gained through a market situation analysis.

Market Segment

For each product there is a market segment from which the customers are most likely to buy the product. Market research gives a clear idea of the segment/s, which would be the most likely buyers of the product.

Product Positioning

Firms try to place the product, both physically through the right distribution channel and psychologically through advertising in the right media, for example, the upmarket Mercedes would be advertised in magazines read by the higher echelons of the business world in order for the company to effectively communicate with its target audience.

After the analysis is complete, marketing plans are made as follows:

1. Market share: A firm tries to achieve market shares by ensuring a proper distribution network through its pricing and promotional plans.
2. Distribution network: Firms have to decide between conventional channels like distributors, dealers, retailers and franchisees or consider newer methods like direct marketing, telephone marketing or television marketing.
3. Pricing: Firms have to decide about whether they want penetration price, skimming price or cost plus price and decide about channel commission and credit sales as these have to be accounted for in the pricing formula being adopted.
3. Advertising and promotion.
4. Training: of salespersons including training for the channel salespersons.

Marketing plan implementation is done as follows:

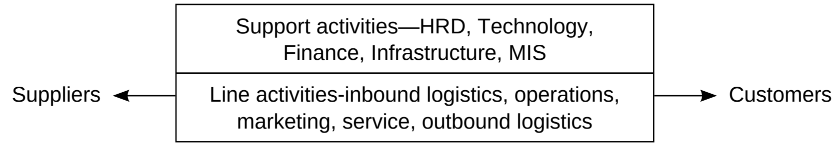
1. Proper allocation of resources keeping the objectives of the firm in mind.
2. Implementing the plan by delegation of authority and responsibility to the team members. The firm must plan and act for time-bound results.
3. Benchmarking and controlling the results through a feedback system.

MARKETING LOGISTICS

After the goods have been manufactured they need to be placed at the most convenient locations—retail outlets—to make buying the goods easy for the buyers. The actual transportation, storage and inventory management are part of background or secondary activities. Yet, one look at them would make you realise that these are extremely important activities. The firm may have the most suitable product for the customers, but if they cannot find the same easily, the value of the product diminishes drastically. Logistics can be defined in this context as follows: Planning, operating and managing with the help of modern Information System, the movement of goods from manufacturers to the buyers, in shortest possible time and in the most economical manner.

Management guru, Michael Porter has structured a method of analysing the functional areas of a firm. The functions can be divided into two major blocks: (*a*) the staff/support functions and (*b*) the line/primary functions. Figure 13.10 represents this graphically.

Figure 13.10 Value Chain Analysis



Inbound logistics cover the movement of materials from suppliers to the firm, the cost of the movement and timely supplies. Operations deal with productivity as compared to competition, production control, and automation in production and factory layout. Marketing covers market research, advertising and promotion, distribution channels, brand equity and products place in BCG Matrix and PLC. Service covers the guarantee service, other external guarantee services and handling of complaints. Outbound logistics cover the movement of finished goods from the firm's godown to the customer's place. The analyses must be done keeping the customer's viewpoint in mind—'Is the new finance manager having a customer-oriented approach?'

The activities of any firm can be divided into two groups:

1. Primary activities
2. Secondary activities

As can be seen, Porter's analysis helps in understanding the various functional areas of a firm. On the left hand are the suppliers who provide the raw materials and components, which are converted into finished products through the operations or production process. On the right-hand side are the customers, the ultimate destination of the finished products of the firm. And the value part of the value chain is the value that firms provide through the entire process to the customers.

It is important to understand that unless the firm is adding value to the customers through the conversion or production process, the firm can never sustain itself in the market.

In this chapter we are dealing with mainly outbound logistics. The area of outbound logistics starts with the distribution system of the firm and can be divided as follows:

1. Distribution network—wholesalers and retailers
2. The customers
3. Finished goods stores
4. Demand forecasting and management
5. Inventory management
6. Final packaging

7. Order processing
8. Transportation
9. Generation of information
10. Billing (in some cases)

The distribution network of any firm depends on the range of products, existing patterns in the trade, customer needs as also the practicality of the network. While the distribution systems will be discussed in detail in the subsequent chapter, the following gives an idea of the distribution channels currently in vogue:

1. Sole distributor
2. Area distributor
3. Stockists
4. Agents and commission agents
5. Dealers
6. Franchisees
7. Own shops
8. Retailers
9. Telemarketing
10. Teleshopping
11. Internet shopping

The movement of goods from the manufacturers or sellers takes place on receipt of orders from the customers (the distribution channel members are customers for the seller). The next steps are as follows:

1. Final packing of the product, if required.
2. Arranging for the means of transport.
3. Making dispatch documents, delivery notes and packing lists.
4. Actual loading on the carrier.
5. Transit insurance, if required.
6. Inventory update.

It is important to look at the customer's instructions carefully and adhere to them meticulously. In case some instructions cannot be met, these must be clarified and modified by communicating with the customer. Any oversight in this matter could cause major problems at the time of getting payments from the customer.

As can be seen from Table 13.2, expenses on transport are substantial when the costing of the product is done (the figures are arbitrary and meant only to give an idea). Selling price of Rs 100 is made up of the costs as shown in Table 13.2.

Table 13.2 Selling Price Components

Cost of money	Rs 16
Raw materials	Rs 24
Transportation up to the customer. It can be higher for products meant for the international market	Rs 28
Manufacturing or conversion	Rs 8
Overheads/profits	Rs 24

As can be seen, while most CEOs lay stress on cost reduction in manufacturing expenses, the place where real expense takes place is transportation. For inland transport, the following modes of transport are used:

1. Railways (goods trains or passenger trains)
2. Trucks
3. Air cargo service
4. River boats
5. Ships

Within town areas, small tempos, hand carts, bullock carts or cycle carts are used.

EXAMPLE

One firm making television picture tubes had to send tubes all across the country and to a few places outside the country from a centre in west India. The normal mode of transport used was trucks, which carried goods over large distances. Due to bad roads and bad conditions of the trucks, inevitably 10 per cent of the cargo used to get damaged in transit. Television picture tubes being fragile were easily damaged in transit. While insurance firms reimbursed the company for the physical loss of the product, the loss caused in the production of television sets for which these picture tubes were intended could not be compensated. International despatches were sent by truck to the ports where the cargo was laden on to ships.

The answer to reducing damage in transit was found by calling the railway authorities. They suggested the use of their container service, which also included the provision of door-to-door service. The containers would come to the factory on special trucks, get loaded and then they would go on the trucks to the railway yard to get connected to a goods train meant for the required destination. In one stroke, the problem of damages to goods was solved. Additional benefits came by way of less money spent on packing as the containers were of the right size to fit in the required number of tubes with no extra space for the tubes to have any moving space. Besides, it also brought in saving in transport costs and with the same money the customers could buy more tubes. These containers were loaded on railway wagons up to the ports in case of overseas despatches where the containers were laden on the ships.

Since the movement of goods usually involves more than one organisation it calls for coordinated efforts between the supplying firm, the receiving firm or individual and the carrier. The term that encompasses the entire operation is *logistics.* The value of logistics can be increased by the following:

1. Integration of product movement, information system and cash flow.
2. Coordinated responsibility of both internal and external efforts.
3. Efficient and effective methods of logistics.
4. Strengths and cooperation of external customers.

Transportation for outbound logistics calls for the following decisions:

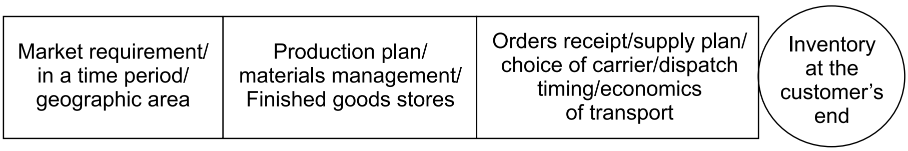
1. Choice of transport company.
2. Selection of mode of transport.
3. Freight considerations.

Warehousing has the following areas of activities:

1. Receiving and unloading the goods.
2. Inspection of the goods.
3. Receiving the orders.
4. Repacking, if needed.
5. Billing, if required.
6. Shipment or transportation.
7. Inventory records management.

Decision-making depends on a good planned information system. The information process flow is shown in Figure 13.11.

Figure 13.11 Supply Chain Information Process Flow



For example, look at the plight of sugar mills. The mills run usually on a seasonal basis as sugar cane is cultivated only during a short period every year. The most important raw material in a sugar mill is sugar cane. Each sugar mill has a limited capacity for using sugar cane. At times the sugar farmers bring huge amounts of cane, which the mills cannot use as the space for storing cane gets filled up. In order to regulate the flow of cane, some mills have provided farmers with walkie-talkie systems. Using these they communicate with the farmers and tell them exactly when they should bring in the sugar cane. This way the farmers do not have to wait for a long time in queues and the mills are also happy that they get the cane just at the right time when they need the same.

Tasks for Students

Find out a suitable system of logistics that would help the firm in overcoming the problem. With computerised inventory management, faster communication systems, firms can ensure that their customers have the product just when they need them, reducing their inventory and cash blocking burden (more relevant in the case of business purchasing).

* * * * * *

One important method of gaining competitive advantage is quick response, which firms can provide to the market demands. It is a well known saying that *it is the early bird that gets the worm.* In the same way, in the market place, firms that can place their products before others get the customers' attention and become the market leaders. With prudent decisions it can keep the leadership position for a long time as per its plans.

Logistics, including transportation, can be used judiciously to provide the market with products at the most appropriate time. The Japanese have given the world an approach to the situation known as the just in time (JIT) approach. This adds to the competitive advantage of the firm.

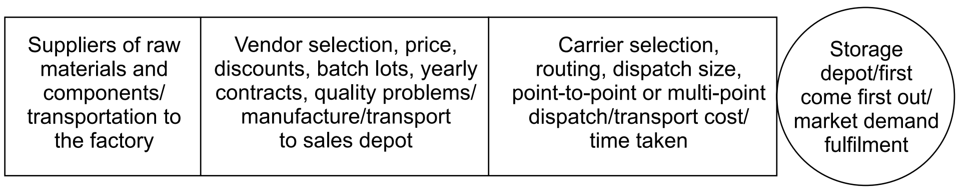
Many firms spend a lot of money on new product launches. These are followed by major promotional plans. Imagine a situation when, after all the expenses have been incurred, the market is devoid of the product. The firm is likely to lose a lot of money in the process.

With the emergence of e-commerce, while the entire transaction may take less time, the actual receipt of goods by the customer must be as fast as possible. In the global market place, where most firms have operations in India, outsourcing of finished goods is becoming a common phenomenon. It calls for a thorough knowledge of logistics, which the firm can plan internationally. International shipments, air cargos, ships and, in some cases, road transport are the usual means of transport and each one has its own set of advantages and problems. Payment terms, banking regulations, currency fluctuations and delivery date sanctity become important criteria for decision-making.

Going back in time, till the 1960s, the business scenario in India was quite different from what it is today. Competition was practically non-existent, there was great emphasis on government or public sector enterprises and lots of benefits were given to the small-scale sector. Core products like telecom, defence and power were meant exclusively for government agencies. In fact, it would not be an exaggeration to say that the private sector was looked at by the government with suspicion. Business was regulated and controlled through licenses and permits, which were doled out to the private sector which made heavy investments with great reluctance. With little or no competition, the firms entrenched in business were making money even with indifferent product quality.

The supply chain of that period is shown in Figure 13.12:

Figure 13.12 Supply Chain 1960 Model



SUPPLY CHAIN PRODUCT PUSH

Products are pushed on to the channel members to build *push pressure*. The firm's own finished goods stores are stocked to service the market demand. In case of consumer goods, the dispatches are made to the first-line customers—the distributors. For small towns, the distributors are unable to take full truckloads. In such situations, point to multi-point supply is made to more than one destination, serving several distributors.

A firm's finished storage depots have the following tasks to perform:

1. Unloading goods from the trucks.
2. Stacking goods in the depot.

3. Inventory management.
4. Repacking or un-bulking if required.
5. Transport to the channel members.
6. Transit insurance, if required.

Logistic costs vary from 7–35 per cent depending on the product and the market. Logistic movement has a bearing on the profitability of a firm as also its cash flow. Hence, the decision on the following need special consideration:

1. Factory site
2. Geographic markets
3. Sources of main raw materials and components
4. The location of the factory's own depots
5. Transport facilities, local and international
6. Inventory management
7. Packaging
8. Material handling equipment

The role of the government in planning logistics is quite important due to the following reasons:

1. Taxation on sales—local and central
2. Excise duty
3. Octroi and entry tax
4. VAT
5. The Motor Vehicles Act

Central sales tax is charged when a sale is made from one state of the country to the other, like from Delhi to Gujarat. Local sales tax is charged when a sale is made within a state. Excise duty is charged on the manufacture of products. Octroi is charged when a product enters some municipal areas. VAT is value-added tax. The Motor Vehicle Act controls the movement of trucks.

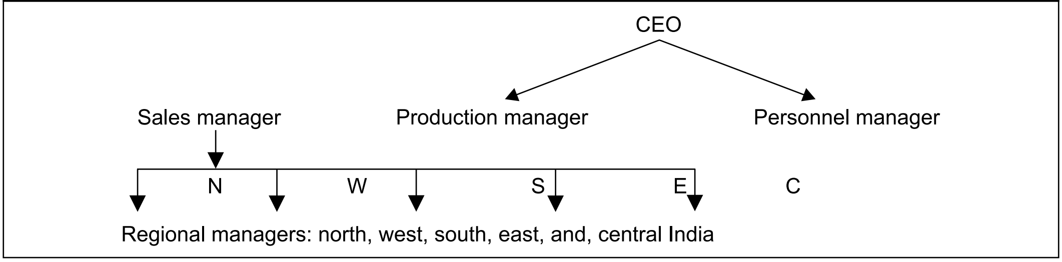
International marketers must find out about the taxation plans of the host country, otherwise they might get caught in the taxation trap and may have to pay heavy penalties or face legal action by the host-country's government.

MARKETING ORGANISATION STRUCTURE

Business in India has been undergoing changes much faster now than ever before. The business environment, both general and competitive, is changing rapidly. Hence, an organisation structure, which does not match up to the needs of the changes, loses its share in the market in no time. It is therefore imperative for firms to keep themselves abreast of the changes to enable them to modify themselves according to the circumstances and market situation. Flatter organisation where decision-making is spread across the tiers is taking roots at present. In marketing, no manager can survive by remaining away from the market place. The days of an ivory tower existence are over.

In the first half of the twentieth century, with no or low competition, the stress used to be on manufacturing and sales. The idea of marketing as we understand it today was not even remotely known, at least in India. Hence, the organisational structure for selling in the 1950s was as shown in Figure 13.13:

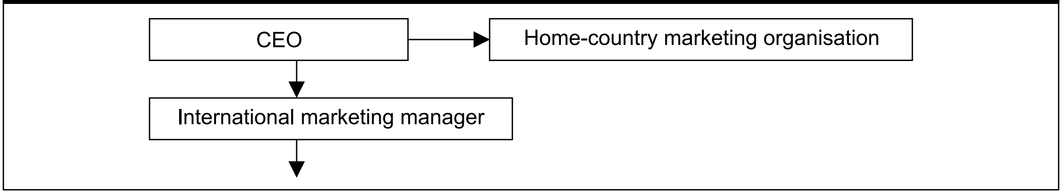
Figure 13.13 Organisational Structure Based on Sales



The sales manager with his regional managers and a team of salesmen with each regional manager was engaged in selling the firm's products. Any market research or advertising was got done by outside agencies.

As the firm's business expanded and competition became a reality, the designation of sales manager got converted into that of marketing manager, who assumed integrated responsibility of the different functions of marketing. Thus, the marketing department was born with an organisational structure as shown in Figure 13.14:

Figure 13.14 International Marketing Department Based Organisational Structure



Later on, product or brand managers were introduced depending on the product group and severity of competition. Product or brand managers are responsible for the products or brands they handle. In Hindustan Unilever, there could be a manager for soaps and shampoos, another one for cooking oils. Or they can have a brand manager just for the Lux brand of toilet soap. The task for these managers is to plan the total marketing strategy for their brands like the selection of the product (after market surveys), pricing the product, organising the distribution network, planning advertising and sales promotion for the product and related tasks of training salesmen, both the firm's and those from the channel members, for achieving the best results. Some of their other tasks are:

1. Sales forecasting, management of the market share of the firm.
2. Expense budgeting and control of expenses in the area in their control.
3. Obtaining feedback from distribution channel members and users about the product and starting product improvement action.
4. Continuous market watch for activities of the competition.
5. Assessment of needs for new products akin to the products being handled.

6. Improvement in retail trade through follow-ups, better merchandising support, including shop layouts, window dressing, colour schemes and interior decoration.
7. Proposing improvements in packaging of the product, including planning variety of sizes and shapes of the packages.

When the brand/product managers do their job well, the job of the marketing manager becomes easy.

Product/brand managers have to interact with several inside and outside agencies in order to perform their tasks like:

1. Advertising agencies.
2. Promotional agencies like public relations firms.
3. The packaging and purchase group of the firm for package purchase.
4. Sales force.
5. Market research group, within or outside the firm.
6. Legal cell of the firm for brand registration and legal action in case of brand infringements by outside parties.
7. Product development group in the firm to pre-empt market demand changes.
8. Finance manager of the firm for getting financial allocations for advertising, promotion, changed packaging and training of personnel.

Product management suffers from lack of coordination with other functional areas like quality management, purchasing and processing and human resource management. To enable the product managers to function to their full capacity and utility, their role must be clearly defined. Any ambiguity or transgression into other roles would cause not only hardships to the product managers but also hinder smooth operations of the department and therefore of the firm.

Understanding the problem areas and building a conflict-resolving mechanism into the system can help sort out the friction between the functional managers and product managers. Besides, the objectives laid down for the product manager should be measurable and once the managers understand the result orientation they would themselves avoid conflicts, which in any case only impede their work and therefore hamper results.

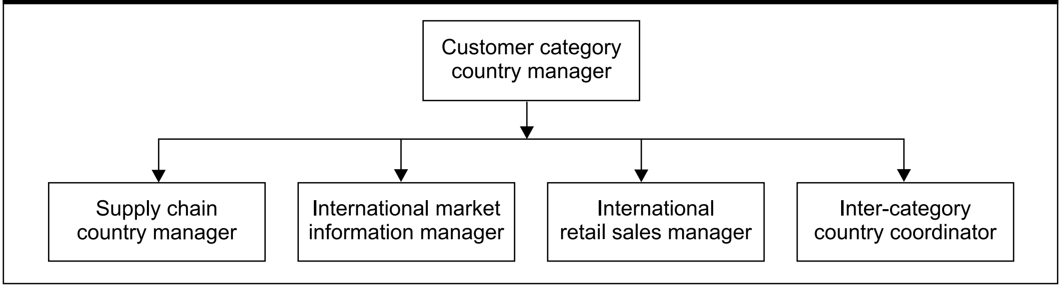
MARKET-BASED MARKETING ORGANISATION

For products that are purchased by a distinct variety of customers, the marketing organisation needs to take into account the special requirements of the customer groups. Let us take an example. Personal computers (PCs) are sold to the following category of customers:

1. As home PCs.
2. For business and industry.
3. As part of the manufacturing process.

For each category, special types of selling efforts and technical expertise are needed. The marketing department can therefore be organised as shown in Figure 13.15:

Figure 13.15 Special International Marketing Department Structure



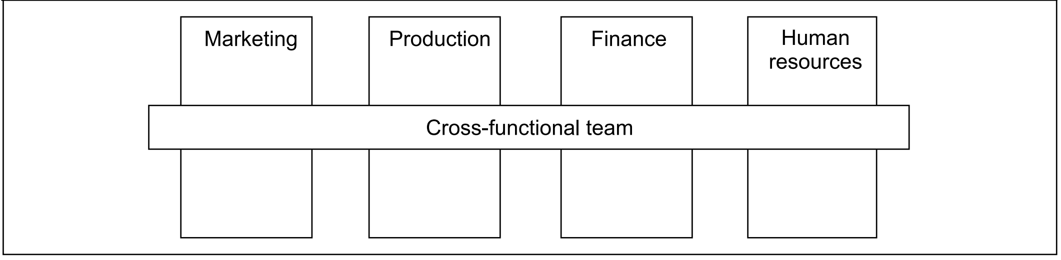
CORE PROCESS-BASED ORGANISATION

Functional structures have been found lacking, as they do not provide for inter-functional coordination, which results in each functional head becoming a feudal lord with little or no empathy for other functions. Lack of coordination can be removed by two methods.

Making Teams with a Member from each Area

Creating teams with one member from each functional area, for example, one member from marketing, one member from operations or production, one member from human resource management and one member from finance (Figure 13.16).

Figure 13.16 Cross-functional Teams



Cross-functional Structure

There are three areas of activity in any firm and the cross-functional structure takes into account the best way of operating through these activities:

PRODUCT DEVELOPMENT

Activities connected to new product idea development, manufacturing technology, purchase of technology or indigenous development through research and development, market research to find its market, pilot production, leading up to test marketing.

DEMAND MANAGEMENT

Once the product has been accepted in the market, the demand for the product has to be created through more comprehensive market research, advertising and promotion, setting up the right distribution channels, training the sales people, both of the firm's and of the channel members, procurement of market information from secondary sources, merchandising and publicity to enhance the brand equity of the products.

ORDER FULFILMENT

These activities start once the order is received and start with materials management including inventories and the latest innovation of JIT supplies from the vendors to ensure that the current assets remain at the lowest possible levels and money is not blocked in inventories more than is really essential; conversion of raw materials into finished saleable products, finished goods inventory and outward logistics of dispatches to the cusomers.

These cross-functional activities, along with resource management—the financial, human, technology and information resources, infrastructure and finally the management controls, where the activities are rated against benchmarks, complete the firm's activities in their entirety. This is shown in Figure 13.17:

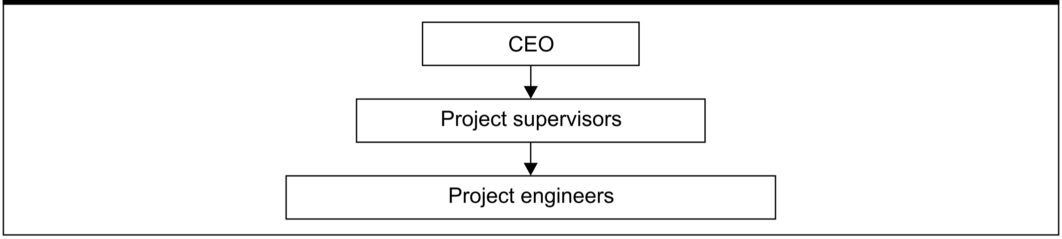
Figure 13.17 Cross-functional Structure

	Resources: finance, human resources, infrastructure, technology, information	
	Product development	
Suppliers ←	Demand management	→ Buyers
	Order fulfilment	
	Controls: benchmarking results	

FLATTER ORGANISATIONAL STRUCTURES

The need for faster decision-making and coming closer to the customer has led to flatter organisational structures. The person in the firm who is the first point of contact for the customer is one who knows the customer and his problems the best. He should therefore be taking decisions about the customer within the guidelines of the firm. This has lead to CEOs having closer interactions with people at the first level of the firm (the company's first point of contact) so that they can motivate them and give them moral support when necessary. In the area of information technology (IT), most firms have become popular, as there are only three tiers in a usual IT firm's hierarchy as shown in Figure 13.18:

Figure 13.18 Flat Organisation Structures

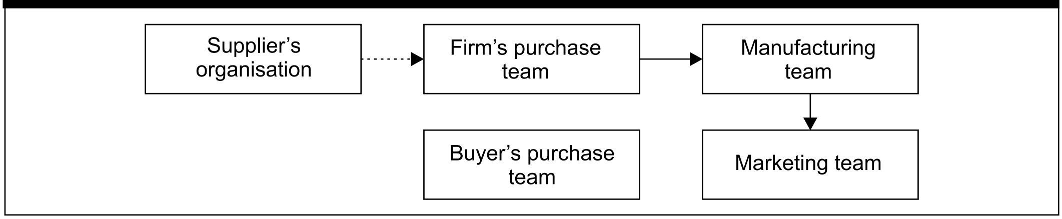


Other small/medium-sized organisations are considering having a flat structure, which allows them to make quick decisions, shortens the response time with regard to both internal and external customers and gives them competitive advantage.

NETWORKING TEAMS

An extension of flat structures is networking teams, where the functions are divided into teams, which are homogenous in nature, work for a common goal and extend their arms to other teams for coordination. These are inter-firm and intra-firm teams. A few examples are given in Figure 13.19:

Figure 13.19 Networking Teams

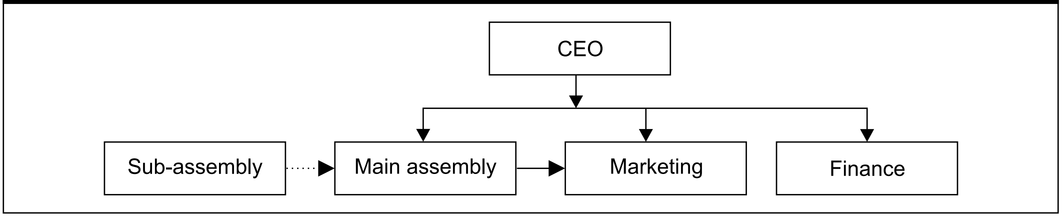


Marketing team can be subdivided as sales, advertising, after-sales service and marketing research teams. The concept of networking is new in India but is likely to catch up due to its flexibility, ease and speed of decision-making.

VIRTUAL ORGANISATIONS

The concept of a virtual organisational structure is not new to India. As stated earlier, even in the first half of the twentieth century, sales departments of firms did not have a separate market research cell. When the need arose, outside agencies were given the task of conducting the research. Virtual organisational structures are those which do not form the firm's own structure, but which are available to the firm. Many firms farm out selling functions by appointing a sole selling agent to look after the same. Others farm out research. Advertising and publicity are most common areas given to outside agencies. The virtual part of the organisation is non-existent in the organisation chart of the firm and yet it exists; it performs the given tasks and takes away a lot of burden, expense and worry from the firm. Some firms have even given the task of maintaining their accounts and finance including billing and payrolls, at a nominal expense, to agencies outside their organisation. Farming out the manufacture of sub-assemblies has reduced the manpower required to a great extent in many firms; all they need to do is keep a strict vigil on the quality of sub-assemblies coming from the firms to which they have outsourced. The structure would look like the one given in Figure 13.20:

Figure 13.20 Virtual Organisation Structures



As can be seen in Figure 13.20, the sub-assembly has been farmed out and it figures in the organisation chart only in dotted lines.

Task for Students

Please discuss if the organisational structure can have any bearing on an organisations success as a marketing firm. If yes, what are the options available today for making the structures more customer-friendly?

* * * * * *

SUMMARY

With the globalisation, liberalisation and privatisation of the Indian economy, a large number of international firms have started their operations in India and more are likely to enter the Indian market. Managers have to therefore upgrade their concepts and systems. Some measures that need to be adopted are:

1. Satisfying customers with a long-term commitment for the supply of good quality goods with innovative features and life-long service support for the products with easy availability of spare parts and service engineers.

2. Offering a complete range of products under one brand umbrella of consistently good quality for enhancing customer loyalty.
3. Customisation of even mass-produced products to cater to discerning buyers. Maruti cars can be purchased with the customer's own interior specifications like seats, ceiling and stereo system. De-massification of the message in advertising is meant to speak the language of a single representative of the international market segment.
4. Relationship marketing helps in keeping customers loyal for a long period of time. Newsletters, special events and regular personal contacts help in building relationships for increased and sustained profits.
5. Data files for constant contacts at several levels. These contacts may be personal or done via advertisements and direct mail. They are useful in combating competitive forces.
6. Partnership with suppliers and dealers help in a firm's effort by keeping products of top quality on the top of the retailer's displays. The greater the involvement of the firm's personnel from each area and of every level, the better the chances of continuous improvement in sustained growth and profits.
7. The customer is king and any deviation from this thought process would bring only grief to the firm.
8. Logistics play an important role in the planning process for profitable sales.
9. Organisational structures are undergoing major changes in order to keep pace with market dynamics, as buyers have less and less time to take buying decisions.

International Marketing Game 13.1

1. Do you believe there is any connection between international supply chain and cash flow? If yes, discuss in detail.
2. Who are the internal and external customers in the supply chain? Describe their role in creating an efficient supply chain.

It would be interesting to know the response time of the company during changes in customer needs. As the saying goes, 'the early bird catches the worm', so does the marketer who can understand the customer's demand or intrinsic demand (that of cellphones before they came to India and before anyone knew about them, there was an intrinsic demand which had been dormant due to lack of knowledge of the product as also its unavailability). Customers appreciate new products if they are useful to them in one or several of the following areas:

1. Physiological needs
2. Safety
3. Social status
4. Personal esteem
5. Self-actualisation

Customers are looking for customised products, faster delivery and response to changing markets and most of all to settlement of their complaints as quickly as possible. These factors are responsible for giving a firm a competitive advantage.

Factors helping achieve competitive advantage from quick response are:

1. Updated knowledge of the market.
2. Superior training for immediate results.
3. Faster new product development and improved manufacturing processes for cost reduction.
4. Latest technology components.
5. Ensuring no shipping delays.
6. Low down time for maintenance.
7. JIT deliveries to customers.
8. Faster movement of documents like purchase orders.
9. Well-located service centres for quick response to service needs of the customers.

QUESTION FOR DISCUSSION

1. What are the characteristics of a market economy?

14 Market Competitive Forces Worldwide

AIMS AND OUTCOMES OF THE CHAPTER

To understand the international competitive environment, it is useful to use Michael Porter's Five-force Model. In the good old days competition meant only the players in the field. Today, students need to understand the different areas of the competitive business environment that affect a company's business. This chapter will help students in gaining an insight into the competitive business environment as this knowledge is essential for gaining competitive advantage in the international market place.

The Five-force Model makes a comprehensive statement on what constitutes competition and is given in Figure 14.1:

Figure 14.1 Michael Porter's Five-force Model

	New entrants' threat	
Supplier's bargaining power	Present competitors	Buyer's bargaining power
	Substitutes	

NEW ENTRANTS

New entrants pose a disguised threat as the time of their entry and the manner of their entry is not known till the very last moment. Each country has some entry barriers and exit barriers. If the entry barrier is high and exit barrier low then it is the best place to be, because new firms will not enter and low-performing firms will quit instead of trying to undersell and make everyone lose profits. Entry barriers can be one or more of the following:

1. Government regulations like licenses required to operate in the host country.
2. High project costs, including cost of travel, transportation, import custom duties and taxation costs.
3. Difficulty in obtaining or patenting technology.
4. Market in the maturity or decline stage in the host country.
5. Paucity of the raw materials needed in the host country.
6. Non-availability of channel members in the host country.

More players in the field means excess production capacity and lower profit margins for the players.

SUBSTITUTES PRODUCTS

They need to be watched carefully as with innovation and new technology they can pose a major threat. Home interior walls can be covered with lime wash (*chuna*), emulsion paints, wallpaper or wood panels. Each has its own pricing formula and its plus and minus points.

SUPPLIERS

The suppliers of a firm play a key role in product costs. If the buyers are few and the suppliers many, then buyers will enjoy the power to bargain. In case there are only a handful of suppliers and several buyers, the suppliers hold the advantage.

BUYERS

The buyers of a firm's product are always the most important part in the game of marketing. With large number of buyers and few suppliers, the buyers can be at the supplier's mercy.

COMPETITORS

Competitors need to be analysed. It needs to be ascertained whether they are strong, large in number and aggressive. If not, then the firm can lead the pack of competitors. How to locate competitors is a vital question for firms. Pepsi knows that Coke is its biggest competitor, and yet they cannot neglect minor competitors. In the area of television sets in India, Sony, Samsung and Philips, are the known competitors and yet there are several small assemblers in each major centre who account for nearly 25 per cent of total sales of television sets. The same thing is true for many industries including the computer industry. For this purpose, firms should arrange regular feedback from their marketing or field sales force so that the real picture of the competition, its business terms and prices can be known. Without this kind of information, the firm is fighting a battle with ghosts.

COMPETITION TYPES

There are several types of competitors in the market:

Monopoly

When there is only one supplier of a product in a given geographic area, the situation is called a monopoly. In India, the government enjoys a monopoly in the fields of railways, power and some defence supplies. In such cases, there is a tendency of putting skimming prices and giving less value for money. Only when there is social commitment can price and service be in line with the rest of the market in a monopoly situation. Internationally, host countries may have similar laws leading to monopolies in certain products.

Oligopoly

When the supplies are made by a small number of major firms, the situation is called an oligopoly. Firms making core raw materials like iron, steel, oil belong to this category.

Differentiated Competition

This is a phenomenon perhaps essentially of the Indian market. When an industry is divided into large-scale organised players and small-scale assemblers and sellers of pirated goods, the competition is called differentiated competition.

Fragmented Market

In a fragmented market there are several suppliers of the product with similar products and hence pure and perfect competition rules the market.

COMPETITIVE ADVANTAGE

Firms get their competitive advantage from the following sources:

Differentiation

Differentiation can be made in either the product or any of the other marketing mix factor like price, promotion and placement.

Cost Differential

With the help of economies of scale and experience curve, firms can achieve lower costs and strategise their pricing to suit the market conditions for gaining market leadership.

Response to Market

Understanding market needs and satisfying them at the appropriate time gives firms an edge over competition.

Market Focus

Getting into a niche market and using marketing resources like advertising, promotion and personal selling in that market give firms a competitive advantage.

Service

While products can be copied, it is very difficult to copy service. Many 'me too' products come into the market no sooner than a successful product is launched in the market. However, it is very difficult to replicate the service provided by a firm.

Vertical Integration

When a firm takes to manufacturing upstream products like raw materials and components and also does its own retailing in the downstream area, it gains cost-effectiveness due to better availability of materials, low or no transaction cost, acceptable quality and better inventory management. It saves on costs and is also able to have superior production planning.

UNDERSTANDING COMPETITION

Firms manufacturing the same products and targeting the same markets are first-level competitors. In order to compete, a firm must know its first-level competitor's strengths and weaknesses, core competencies, plans and policies and its keenness as a competitor.

The competitor's strengths could lie in the following areas:

1. Product differentiation.
2. Prices and discounts.
3. Distribution channels.
4. Cost of capital and ability to borrow funds at low interest rates.
5. Loyal customers.
6. Purchase.
7. Manpower that is committed and loyal.
8. Research for new product technology as per market demand.
9. Government contacts.
10. High brand equity and the firm's image.
11. Resource allocation.

Competitor's Plans

To stay one step ahead, competitors keep modifying their plans, as reactions to environment changes or as a proactive approach to anticipated competitive moves. In either case, the firm needs to continuously monitor its competition's plans and changes made by it as they keep occurring. It will give the firm an insight into what the competitors are hoping to achieve by way of market share, geographic coverage and profits. It will also give an idea of the cash flow situation of the competitors. Besides the mindset of the competition's management, it is also the size of their organisation that matters. A small manufacturer who is able to sell his product in a local area will not attempt to upset his market by any drastic strategic changes unless he is setting up additional facilities for manufacturing larger volumes. A cash-rich competitor can indulge in selling at a loss to stave off new competitors. Usually a competitor's financial results of the last three years can give a good indication of their strengths and competencies. Competitors can be classified as per their strengths and the mindset of their management as follows:

MARKET LEADER

They have the highest share of the market. They spend a lot on retaining their position of leadership. As the market starts declining, they try to reassess their options and strategies. They can hardly fight price wars.

MAJOR COMPETITOR

They have a dominant share of the market. They can spend on a price war and take a leadership position if they so desire. They are price leaders in the market. Others follow their pricing policy with regard to an increase or decrease in prices.

MINOR COMPETITOR

They need additional resources and management efforts before they can take on the leadership position.

UNSATISFACTORY COMPETITOR

They have major management problems and are directionless. They need a bold innovative manager who can turn the organisation around. Such competitors should be monitored for their potential as major threats.

PROBLEM COMPETITORS

They are mostly on their way out of the market and with sensible planning a firm can convert a problem competitor's customers into its own.

An assessment of competitors offers a major leverage in planning marketing strategies for the firm. Firms can plan resource allocation, management stress and result benchmarking from knowledge about the competition.

The competitive cultural ethos of a firm plays an important role in its strategic planning with regard to the market. The following gives an insight of different cultures prevalent in firms:

1. Dynamic culture is one where firms never lose sight of their goals and objectives, are always on the move in pursuit of these goals. They relentlessly strive to increase their market share and brand equity. Coke and Pepsi are two such firms and they ensure that the other does not get even an inch of their ground at any cost. Firms dealing with competitors who have a dynamic culture should remain as second or third players and wait for the time in future when the dominant player makes a mistake and slips down the ladder. Alternately, the firm could bring a totally new concept product and invest heavily in marketing it to get the better of its dynamic competitor.

2. A mystery competitor is one who keeps his cards close to his chest. New products, new package are brought about to startle competition. Firms need to assess the viability of these competitive moves before taking any competitive action.
3. Follower competitor is one who tries to match others. Such competitors should never be taken lightly as while copying they do try to improve on the original and avoid making the mistakes the innovators have made. Patenting designs and technology could save firms from such loss of business and embarrassments.

Continuous Market Information

Continuous market information from the field force of a firm's salespersons and channel members is the key to having an updated information bank on the competition. A firm's field force should therefore be the eyes and ears of the firm. The information should be analysed and competitive firms categorised as weak or strong competitors. The management must use the information as a proactive player and avoid sudden market share jerks.

Customers' assessment of competitors is the most effective way of categorising international competition. A survey to find the assessment should be done on a regular basis. A sample of information to be acquired on a scale of 1–5 is given in Table 14.1:

Table 14.1 Customer Assessment of Competitors

Competitor/Attribute	*Product benefits*	*Service rating*	*Channel network coverage/ quality*	*Price/value for money*
Competitor A				
Competitor B				
Competitor C				
Competitor D				

Besides, competitors market segment, their niche markets need to be known. It will help the firm in positioning its products for optimum results.

IMPROVING MARKET SHARE

Notwithstanding severe competition, firms must plan to increase their market share. Firms need to look at the following methods for the purpose:

1. Increase customer base by selling to more number of customers through market penetrating prices. Customers can be added from new geographic areas, which have not been exploited by the firm so far.
2. Increase the way the products can be used. Maruti has marketed its Omni van as a multipurpose vehicle. It can be used as a school bus, a delivery van and also a large family car.

3. Increase usage of the product. This can be done by telling customers to use their products more frequently: Brush your teeth twice a day/shampoo your hair daily.

In order to ensure that the competition does not take away the firm's market share it must make its customer's brand loyal on a long-term basis. Relationship marketing helps in this venture when a firm is not just waiting to counter the action of its competitors but is proactively interacting with the customer to make him/her feel and believe that the firm is there only for him/her. When the competition starts its campaign to capture extra market share the firm has to decide on the following variables:

1. Product price: Is it giving value for money as associated with the brand or does the product price need any revision?
2. Has the competition hit the firm in its weakest market? Is it worthwhile fighting competition there or should the firm look for that particular competitor's weakest market and hit him there (Cross Parry).
3. Brand equity needs to be improved by advertising. The advertising efforts should be focused on the target market segment.
4. Sales promotion should be used to facilitate the customers to make up their minds in favour of the firm's product and for making purchases. Countering the promotional activities of the competition requires close watch of the market movements of goods.

GENERIC PRODUCT AS COMPETITORS

Other than the main competitors of the firm selling the same or similar products, there are other products too vying for the customer's rupee. The following examples will amplify the point:

1. Motorcycles competing with cars: Both are means of transportation. With the availability of several payment options such as leasing and deferred payments at low interest rates, it is becoming easy for Indian customers to buy a car, although he may just be able to afford a motorcycle.
2. While goods like refrigerators compete with televisions and washing machines as also with holiday packages such as a week's holiday at a hill station.
3. A customer might be undecided between buying a new house, a foreign trip or a luxury car.
4. New cars compete with used cars. To cash in on this market, firms like Maruti have started an organisation which buys and sells used cars.
5. Firms offer low rates on exchange. If the customer returns his old product to the seller he gets a discount on the new product price.

COMPETITIVE ACTION

If the firm cannot beat the competitor, it should join in the game with similar/diverse strategies. The ideal way, however, is to build the brand equity to such an extent that the competition cannot even come near the firm's product sales. Perhaps a change in the market segment or getting into a niche market could be the answer. At a point when the firm is on a losing roll, it could plan to divest from that product area. If the trend towards competitive upsurge is of a temporary nature, it may be a good idea to just hang on to the product by getting into penetrating pricing.

Cross Parry is another option. Here the competition is targeted in its weak area. Doing this simultaneously for several competitors is nerve-wrecking but an effective way of beating competition. It creates the desired confusion among the competitors. They do not know what and who is hitting whom and how. This requires continuous monitoring and a great degree of management commitment.

CHECKLIST

Firms need to monitor their competitors' strategies and plans at the international level on a continuous basis. For this purpose they can be guided by a checklist, which ensures that nothing is left out. The checklist covers the essential elements of a marketing plan and uses it as a base. Firms can modify it to meet individual requirements. Some points in the list may not be relevant to some firms and they can be omitted. The numbering of points is not in any particular order and can be revised as per the firm's convenience. The following are the uses for which the checklist can be used:

1. Marketing plan: A comprehensive marketing plan can be developed by using the desired points from the checklist.
2. Information gathering during the market research phase can be simplified for data collection. Information on market forces, competition and the firm itself is required.
3. Pre-testing and final evaluation of the plan can be built into the process.

MARKETING PLAN CHECKLIST

Information summary for each competitive firm should cover information about the following:

1. Its activities.
2. Its management.
3. Its performance.
4. The unique selling point of its products and service.
5. The stage of its market life cycle, that is, whether it is in the growth stage, maturity stage or in a stage of decline.

Financial summary of information about competitors should include:

1. The firm's capital resource.
2. Its future capital needs.
3. Its debt to equity ratio.
4. Its cash flow.
5. Finance deployment areas like salaries, purchasing and advertisements.

The summary should be easy to understand, investment friendly and exciting otherwise the emerging marketing plan will also be drab and will not produce the desired results.

Information summary of the competitors' plan for markets should include:

1. The business in which they are involved.
2. Products/services on offer.
3. Market segment.
4. Geographic coverage.
5. Business history, that is, information about date of formation, products offered and products dropped.
6. Does the firm manufacture or only trade?
7. Annual sales both total and product-wise.
8. Annual profits both total and product-wise.
9. Return on equity for the last two years.
10. Existing problems, cash crunch, labour or any other.
11. Salvage plans if any.

The following information should also be gathered about the industry situation:

1. Current volumes of business.
2. Growth trends for the next two years.
3. Competitors and their product-wise share of the market.
4. New entrants and competitors who have just left the market.
5. Trends affecting business.
6. Economic factors.
7. Social factors.
8. Technological factors.
9. Government regulations.
10. Demographic factors.

Product analysis should include:

1. Description of each product in detail.
2. Product features and the customer benefits associated with each feature.
3. Negative elements of each product.
4. Patents covering the products and intellectual property rights.
5. Reasons for higher market shares like early entry in the market.
6. Possibility of covering the entire product range, related products, accessories.

Market research analysis should include:

1. Who are the major buyers?
2. Where are they located?
3. What motivates them to buy the product?
4. When do they buy it?
5. Is there seasonality in product demand?

6. Market share of competitive firms and shifts in market share over the last one year.
7. What motivates the customer (rank the following as per your priority):
    - Price
    - Quality
    - Service
    - Personal contacts
    - Political pressures
    - Incentives overt or covert

Firms must prepare a master list of the customers in order to have information about:

1. Reasons why each customer has purchased the product.
2. Customers lost with reasons thereof. Customer resistance.
3. Action/s taken to overcome resistance from the customers.

Market size and growth potential:

1. Size of the market in units and rupee value.
2. Channel members market evaluation.
3. Market potential for the next three years.
4. Industry trends.
    - New innovative product.
    - New technological developments.
    - Changing customer needs.
    - New government regulation or levy on the product.

Information about the competitors' terms of business should include:

1. Prices
2. Performance guarantees
3. Quality of service
4. Payment terms
5. Delivery periods
6. Package size/bulk packaging pricing
7. Product variants if any

Information about competitive management should include:

1. Reaction time to competitive actions.
2. Marketing strengths, efforts to increase market share.
3. Finance and ability to generate funds.
4. Operations, timely deliveries, purchase through optimum use of funds.
5. Profits or lack of profits.
6. Reactive or proactive policies.
7. Have they lost market share, if yes then to whom (their vulnerability in this regard).

MARKET SHARE AND SALES

For major customers with sizeable demand (industrial customers or distribution channel members), the following information should be garnered:

1. Type and quantities for which they can make yearly purchase commitments.
2. Last three years purchase of these customers, competitor-wise.
3. Last three year purchase from the firm.
4. Correlation with the following:
   - Customers' assessment of competition.
   - Customers' product acceptance.
   - Production capacities and their utilisation of each competitor.
   - Market projections based on competitive strengths and weaknesses or on industry growth.
   - Effect of brand equity, assessment of goodwill of competitors as reliable suppliers of quality products, which give value for money.

THE COMPLETE INTERNATIONAL MARKETING PLAN

It is presumed that with the help of marketing research and test marketing, the product has been finalised, as also its market segment and geographic coverage. Competition has been identified with its strengths and weaknesses. Market potential has been judged and a business-monitoring organisation has been set up for continuous feedback. In short the following have been done:

1. Product finalised (with its detailed specifications).
2. Market segments identified.
3. Geographic coverage finalised.
4. Competitive strengths and weaknesses known.
5. Feedback mechanism put into operation.

The next step is to identify, in an unbiased manner, the firm's own strengths and weaknesses, by doing a SWOT analysis. Monitoring the business environments, both general and competitive, is a non-stop activity.

Next comes the issue of product plan: Does the product need any modifications to cater to different market segments? For example, the same wheat flour could be sold in a low-cost package for one segment and in usable packs for the other, with a price differential. Coke is another example, which sells both in bottles and in cans. Cars can be sold with air conditioners and stereos or as no-frills cars at a lower price. To lower the cost for repeat buyers, Bournvita, Horlicks and some cooking oils sell in low-cost refill packs too.

Products have been broadly categorised as:

Consumer Products

- FMCG.
- Consumer durables.

- Industrial products:
  - (*i*) Capital goods
  - (*ii*) Raw materials and components
  - (*iii*) Consumables

Services

The management has to decide in detail the products it wants to market. This also should answer the question, 'What is the firm's business?' Inaccurate judgements could lead to marketing myopia.

MARKETING MYOPIA

Myopia or short-sightedness in marketing comes from a narrow vision of the firm's business. Several movie studios in Hollywood had to close down as they could not withstand the impact of television because they felt that they are in the motion picture business. If they had rephrased their business as that of family entertainment they would have started their own television channels. Some studios which did that not only survived but also thrived. Firms therefore must define their business clearly taking the larger market spectrum into account.

CUSTOMER TARGETS

These are virtually the sales targets redefined to cover the market segment both on the basis of geographic and psychographic factors. The targets are then broken down sales area-wise. In practice, the management gives the field a target, which is inflated by about 10 per cent. This is to drive or push the team into action and with a sense of urgency.

The distribution channels are the first line customers for consumer products. In case of industrial products, the actual users could be the target customers.

SALES TARGET PLANNING

The following need to be considered for deciding sales targets:

1. Target period—yearly, six-monthly, quarterly or monthly. These can then be broken down into smaller time dimensions.
2. For FMCG firms, the targets are quarterly or monthly.
3. For consumer durables the targets are quarterly.
4. For industrial products, targets are quarterly or six-monthly targets.

5. Seasonality of sales is taken into account like warm clothes sale during winter months.
6. Historical sales during the same period of the last year or last few years.
7. Anticipated market growth.
8. Current market share of the firm and plans for changes in market share.

With the concept of profit centres, the targets are made for each profit centre separately. The profit centre team with its leader has to accept the targets and devise plans of achieving the same. The key to target setting is that 'Targets should be achievable but only with a big stretch of efforts.' The firm gets the best effort of the team from this approach and it puts a sense of urgency into the team effort. On the contrary, if the targets are too high, the team starts getting disheartened and if they are too low the team makes no or little effort and loses its enthusiasm. Team motivation and dynamism is vital to the success of a firm and no management plan is complete without ways of keeping the team fully enthused. Teams need to ensure that each member of the team fully contributes to its success and weak links should be retrained, counselled or removed if everything else fails. Targets do take into account changes in the business environment and the profit plans of the firm.

ROLLING PLAN

For new products when no historical data about sales is available, firms have to depend on market research information. In such cases, the sales targets need to be frequently updated in case of major deviations from the market research projections. The best method is the rolling plan, where the plan or target is made each month for a three-month period, which allows firms to make corrections continuously. On 1 January, the plan for sales is made for January, February and March. On 1 February, the plan is made for February, March and April. The rolling plan also helps in meeting competitive challenges as they can be changed midstream too. Since in international marketing it is more difficult to predict a workable sales plan on a long-term basis, rolling plans prove to be most effective.

For industrial products, purchase timetables of the industry, seasonality of demand and competitive manufacture should be given due importance. Sugar mills buy most products of their use during their cane crushing season except the products they need for maintenance during their off season.

Sales target must consider the position of the product in the product life cycle (PLC) and the firm's position, that is, whether it is a market leader or a follower. If the firm is a follower is it the first or second or nth follower. A firm's management has to take a decision if it wants to change its position considering the PLC as well.

PLANS AND POLICIES

Once the sales targets have been firmed up, it is time to lay down policies, which would assist in achieving the same. Firms must be able to realise their potential in getting a sustainable competitive advantage (SCA).

As most firms operate in perfect competition, it is necessary to differentiate in a manner to enable the customers to appreciate the firm and its products. Firms need to appear to be different from the competition and it can be done as follows:

Product

Before the introduction of Kinetic Honda, scooters looked much the same. Kinetic arrived in the market as a scooter that had a very distinguished look. Later, this led other scooter manufacturers to follow suit. Dove soap, which is not a soap, is another example of product differentiation. At times the package, trademark or logo can make a difference.

Service

Service is perhaps the most important area of differentiation, as it cannot be copied by the competition. While successful products might be copied, service cannot be copied. Promptness of service with a smile, product delivery, usage training, maintenance and availability of spares can make a firm stand out from among its competitors. Ease of getting the product, speed of delivery, installation and customer training in its usage are aspects of service, which can provide the firm its SCA.

Distribution Channels

Geographic coverage, availability of ready stocks, merchandising and displays and innovative ways of distribution can make the firm unique in the minds of the customers. Retail sales training and retail service are two areas, which help firms in achieving SCA.

Brand Equity

It is perhaps the most distinguishing feature of a firm and therefore firms must keep up continuous efforts by way of advertising public relations and publicity to improve on their brand equity.

Quality

Irregular quality standards and difference in batch quality can do a lot of harm to a firm's SCA. Firms that exceed the quality norms by a good margin, gain SCA over firms that just meet quality standards. They can ask for and they do get higher prices as well. Quality can be defined as the product meeting with its specifications as given by the manufacturers. Can the quality be sustained over the period of the product's life? Is it applicable quality both when the product is static as when it is in a dynamic state? Can the product be repaired? If yes, then what are the parameters of availability of spares, trained technicians for repair work and the like?

Warranty

A firm's SCA can also come from extended warranty periods given for the products, which in turn gets converted to peace of mind for the customer.

Personnel

The personnel of a firm, mainly personnel from the sales department as also the dealer's salespersons, should be trained in providing a sustained quality of service for gaining a sustained competitive advantage.

Brand Equity

It provides a built-in competitive advantage and firms spend a lot of time and money in trying to built and improve their brand equity.

MARKETING STRATEGY

In the initial product offering, the firm may consider two levels of market segmentation, the first one being where heavy start up selling and advertising efforts will be concentrated. On the second level, the buyers who follow the early birds will be targeted.

The next level of strategy would be customer contact. Personal contacts in the field of consumer products are carried out through salespersons of the retailers and hence they need to be trained in proper product selling techniques. For industrial products, the contacts could be the firm's salespersons or the distributor's salespersons, depending on the type of products being sold.

Products should be differentiated in accordance with their unique selling proposition (USP), be it product quality, price delivery warranty or service which goes with the product.

For products that have seasonality in their sales like warm clothes or air conditioners, the firm's marketing strategy should involve plans for out of season sales.

Price should be planned with careful consideration of the PLC, competitor's pricing and the firm's marketing objectives. For increasing market share, penetrating price could be kept while for increasing profits skimming prices could be considered. The following need careful consideration:

1. Is the firm's price lower than its competitors? Is the firm losing profits for no reason?
2. Is the pricing strategy carefully thought out?
3. Do the prices cover both goods and services?
4. Will the pricing strategy secure and increase product acceptance in the desired market segment?
5. Should the firm maintain or increase its market share as per it marketing objectives?
6. Does it provide profits?
7. Can a higher price than the competition be attributed to a product's innovative nature, quality, warranty or service?

The increase or decrease of price influences profitability as a result of the effect on sales. However, the effect of price on sales is not always obvious. For example, price decrease often results in increase in profits. A good example is the decrease in long-distance telephone rates, which have resulted in greater usage and a consequential increase in profits for telecom companies. Government regulations and changes in taxation rates are also responsible for changes in prices but as these affect the competitors also, their impact can be on changes in the total demand pattern but not on individual firms, unless some firm loses the opportunity of price changes to win customer goodwill.

A decrease in the price of its product by a firm will be normally be matched by its competitors nullifying any advantage to the firm especially in the long run. It may result in price wars, which are detrimental to all the competitive firms. However, price collaboration or cartel formation is illegal in India and in most other countries.

The prices of products offered through the distribution channels can be subject to modifications by the channel members with or without the knowledge or approval of the firm. This helps the channel members in increasing their profitability. It, however, may result in damage to a firm's fair name and brand equity.

PRICE–QUALITY STRATEGY

The price and quality of a product do get associated with each other as shown in Table 14.2:

Table 14.2 Product Price Parity

	High price	*Medium price*	*Low price*
High quality	Premium goods	Loyal customers	Intensive growth
Medium quality	Overpriced product	Middle of the market	Bargain goods
Low quality	Fast profit	Shoddy goods	Discount goods

Consideration of the phase of the PLC of the product must be made. In the growth stage, volumes of business and competitive action should be taken into account. High or skimming prices can give short-term gains and low prices can lead to change in the customer's mind about the quality of the product.

SELLING STRATEGY

It is a vital task of the marketing department of a firm to plan out strategy for selling the products. A firm's salespersons, its distribution channels and their sales force are to be considered for the plan. Additions to the sales staff, channel network and areas of coverage need to be considered. The selection procedure for the additional staff, distribution channel members, their remunerations, salaries, commissions, discounts and margin share-out between the different channel members like retailers and distributors should be finalised. Turnover discounts and cash sale discounts need special consideration.

The firm's service and warranty policy need careful planning. Depending on products these could be either vital or inconsequential for purchase decisions. In consumer durable products, capital goods service and warranty play a major role in purchase decisions. (Maruti cars claim to have the widest service network in the country and this claim has become the firm's USP.)

Handling of complaints needs special consideration as even in the best-quality products, problems can arise. It is the promptness, courtesy and expertise with which the complaint is handled that makes the difference in repurchase decisions or in dropping the vendor altogether.

Even for the top-quality product, communication with the customer is vital. Plans for this are made as follows:

1. Advertising plans including creativity, market segmentation, media and timing of the campaign.
2. Sales promotion is done to counter customer resistance for the purchase of the product offered by the firm. Planning sales promotion is done by taking into account the market share objectives of the firm, PLC and it can be done both for the channel members as also for the customers.
3. Publicity is organised as a vital communication link where the customers get the product information through editorial or expert comments, as it is not paid for by the firm and so is an unbiased opinion. The sponsors do not have control over the message.
4. Advertising includes all paid non-personal messages to the consumers. The selection of media, budget, timing and contents of the messages are significant and important areas for the firm.
5. Sales promotion includes coupons, contests, money-back guarantees, free samples, gift items. It plays a major role in the purchase decisions of the buyers. With severity of competition increasing, sales promotion has become a way of life for most firms.

International Marketing Game 14.1

The team should analyse the importance given by the firm under study to customer service for gaining sustainable competitive advantage.

The first three methods, differentiation, cost leadership and quick response, do provide competitive advantage to the firm, but these could be temporary, as the competition knocks off the advantage usually with a flair by not only copying the differentiation, but doing one better than the firm as they have seen the customers' reactions on the differentiated product or the other Ps. Service is one element of the product, which is less likely to be copied. It is not possible to copy the genuine smile of a salesman, his ways of ingratiating himself with the customer, his relationship-building techniques, which although they can be taught, remain in the realm of soft factors that cannot be easily quantified much less copied. Service therefore is one of the ways of creating and maintaining sustainable competitive advantage.

QUESTIONS FOR DISCUSSION

1. Discuss the factors and demand conditions as a part of a country's international competitiveness.
2. What are the main features of a democratic parliamentary form of government?
3. Discuss the differences between a multiparty and a single party democratic system.
4. Discuss the use of lobbyists in planning political strategy.
5. How does a theocratic legal system affect business?
6. What is a mixed economy?
7. Define GDP and GNP.
8. Define the global and the multi-domestic planning process.
9. When should companies adopt a global or a multi-domestic decision process?
10. Discuss the corporate culture needed for a global player.

15 Advertising and Promotion in International Markets

AIMS AND OUTCOMES OF THE CHAPTER

International advertising needs special focus on local issues of the host country and with huge moneys involved students must become fully aware of the finer points of international advertising and promotion to make each campaign count. For creating an effective advertising campaign, the advertiser needs to have the answers to the questions who wants the product, for whom is the advertising campaign created and how? These and several such questions will be answered in this chapter. Students will learn how the advertiser can hit the bull's eye of international consumer psyche every time!

Advertising often grips people's minds, their psyche, in such a way that a make-belief world, a virtual world, gets created. So, what exactly is advertising? Who wants it, for whom is it created and how? We will answer these and several such questions in this and the following chapters. We will also discuss how the advertiser can hit the bull's eye of the consumer's psyche every time!

Advertising management today has become an important area of business and that is why even the common man is quite aware of the subject. However, for a professional it is essential that not only the subject is learnt thoroughly but even subtle nuances are understood so that the person becomes comfortable with it. With practice expertise can be gained to strengthen the skills. Advertising is a fast moving, glamorous discipline and yet without proper concepts it can become quite banal.

ADVERTISING DEFINED

Texts on advertising have given a few definitions of advertising. With the thrust of media variants, that is, several new media being available, the definition can now be modified. First we take the most popular definition, that of the American Marketing Association (AMA), which defines advertising as, 'Any paid form of non-personal presentation and promotion of ideas, goods and services of an identified sponsor.' The communication is non-personal, as nobody has personally conveyed it. What we witness in retail shops when the salesman talks to us to sell a product is that he is personally communicating with us and hence by the definition of the AMA it is not advertising.

The presentation is meant for promoting the ideas, goods and services to create awareness and assist in selling the product. A person or firm known to the company does the advertising. This becomes essential to avoid wrong messages being advertised, or sometimes the message becoming useless, as the potential buyer would not know whom to approach for buying the product, idea or service advertised if the advertiser is unknown.

Advertising can be considered as the soul of marketing in today's world of complex and severe competition. Or it can be a substitute elder brother who helps in taking purchase decisions. Advertisement for the target audience: It is important that the people who are the likely buyers see the advertisement message. Hence, advertisers cater to different market segments with the help of separate media as also target-specific messages. Advertisements for a Toyota car would not have any takers in a slum cluster; advertisement for low-cost clothing material would be of no use to the wealthy elite.

Consumer advertising deals with the actual buyers and users of the market segment and therefore uses a language and a medium best suited to the target segment. Business advertising converging on the target segment has to be in magazines seen by the purchase and technical persons of firms. For instance, an advertisement for television (TV) picture tubes would be best seen in trade magazines that cater to the TV manufacturing industry.

The geographic area of coverage of the media assists in focusing on the target segment where the firm believes there is maximum business potential. A firm wanting to distribute its products on an all-India basis would have to look at the national press, magazines with a national circulation and readership and national TV, including satellite and cable TV channels.

Similarly, firms that want to do business internationally need to select the right media like satellite TV, internet or the national press of the countries where the firms want to do business. Hence, it can be surmised that advertising plays multi-faceted roles in business. Not only does it inform the target segment about the product or service offered by the advertiser but also persuades them to buy these. Since the communication is non-personal, the one drawback is that no immediate and direct reaction or response is available to the sponsor of the advertisement.

PERSONAL SELLING

In case of consumer goods, personal selling effort required is 20 per cent and advertising backup support required is 80 per cent. In the case of industrial products, personal selling required is 80 per cent and advertising support required is 20 per cent (see Table 15.1).

Table 15.1 Personal Selling Effort and Advertising

	Personal selling (%)	*Advertising (%)*
Consumer products	20	80
Industrial products	80	20

TASKS FOR ADVERTISING IN THE TWENTY-FIRST CENTURY

Let us discuss the tasks before advertising in the twenty-first century. In case of new innovative products, the target segment may not even be aware of the product hence and the first task of advertising is to bring about product awareness in the target segment. The steps that need to be taken are:

1. From unawareness to awareness.
2. From awareness to knowledge about the existence of the product in the market.
3. From knowledge to desire of possession of the product.
4. From desire for the product to conviction about its utility value and related benefits.
5. From conviction about the product's utility to brand preference.
6. From brand preference to purchase action.
7. From purchase of the product to its continuous evaluation.
8. From continuous evaluation to repeat purchase decisions.

Imagine the time when cellphones had not invaded our country. The marketers had to resort to teaser advertisements to arouse curiosity in target segment, which created awareness and as the product was launched firms got good response. It is worthwhile to mention that a bad product cannot be sold and as a corollary should not be advertised.

ADVERTISING MIX FACTORS

Advertising is one of the marketing mix factors. Let us analyse the advertising mix factors. In totality there are six sides to advertising. They are:

1. Advertiser
2. Advertising agency
3. Media
4. Public relation consultants
5. Ancillary services
6. Freelance services

Advertisers can be categorised as profit making organisations and non-profit making organisations. The first category consists of the government and government bodies including public sector companies. The government advertises for purchasing through tenders, selling surpluses and recruitment through public service commissions.

Manufacturers advertise when they want to sell (for example, power and industrial raw materials) directly to consumers. They advertise to buy from the market what raw materials components they need to manufacture their finished products.

1. Service providers like travel agents, hotels and airlines advertise to sell their services.
2. Importers advertise to sell their goods to the target segment.
3. Distributors, retailers and other members of distribution channels advertise to sell their products. Since their area of operation is limited, their advertising is also confined to the geographic area they serve.
4. Mail order suppliers advertise so that their catalogues are purchased by their target segment, which could result in their getting orders by mail. *Burlington's* and *Reader's Digest* are examples of mail order suppliers.

The second category of advertisers are non-governmental organisations, like family planning groups, destitute children help groups, de-addiction centres.

ADVERTISING AGENCY

The main role played by advertising agencies is that of communication experts, who assist the advertisers in obtaining optimised benefit for the money they spend in advertising by ensuring that the target segment gets at least an opportunity to see (OTS) the product advertisement. The advertisements are given in properly selected media, which result in improved brand awareness and consequently improved sales and profits which is the major tasks of advertising.

There are several types of advertising agencies operating in the market place to suit different needs of advertisers. Many times one advertiser uses one agency for one type of advertisement and a separate one for meeting other needs. The main types of agencies are:

1. Large, full-function agencies
2. Medium-size, full-function agencies
3. Specialised technical agencies
4. Hot shops
5. Agency of records

Large, full-function agencies comprises the following departments:

1. Account servicing department
2. Account planning department
3. Creative—art, copy, visualiser
4. Media planning department
5. Electronic media coordinator
6. Research department
7. Budgeting and billing department

In India, JWT and Lintas are two of the most famous advertising agencies.

Medium-sized, full-function agencies may not have research and account planning departments. Otherwise, they are similar to large agencies and they graduate to large agencies as their billing and business increases.

Specialised technical agencies are agencies working for a niche market, that is, financial firms, information technology companies and television companies. They normally keep experts in their area of specialisation either on their rolls or on a consultants' panel.

Hot shops are small, lean agencies, which operate on low overheads and do quality work by hiring experts on a project basis.

Agency of records (AOR) is an agency with a large business portfolio and surplus resources. Such agencies buy popular media space in bulk, use it at advantageous costs and sell it to smaller agencies in times of need. For their investment they take a 2 per cent profit margin from the smaller agencies.

THE MEDIA

From the early days of hand-painted posters, media has come with a long way what with the cable and satellite television revolution. Joining the bandwagon is the internet and computer designing of advertisements.

Broadly media are characterised as follows:

1. Press
2. Electronic
3. Computer, Internet
4. Outdoor
5. Point of purchase
6. Direct mail
7. Miscellaneous

Press relates to newspapers in English, Hindi and the regional languages, magazines, in different languages, targeting various segments—cultural, religious, sports, fashion, films, wildlife—the list is a long one. The advertiser has to look for the right paper or magazines which are read by the target segment to ensure OTS. Many top executives have virtually no time to watch television and hence they get the news and other information from newspapers and business magazines. Marketers of products meant for this market segment should therefore use newspapers and magazines to reach the target segment effectively. Expensive cars, laptop computers and expensive dress materials could fall in this category.

Electronic media relates to television, radio and videocassettes. Television as a media for advertising has made the biggest impact on almost all the segments of customers. Satellite and cable TV have invaded practically all homes. Viewership of TV has increased manifold and terms like couch potato have been invented for people who are constantly viewing TV. This fact has opened up advertising vistas for a majority of the products. The advertiser has only to understand the programme one segment views and then he can plan to place his advertisement during that particular programme. Similarly, FM channels of the radio have become popular in metro towns and enjoy a large teenage following. Products meant for teens can be advertised on FM radio with great certainty of success. Telemarketing and teleshopping are making strides as the latest media. Products are sold through telephones in one case while in the other TV is used for demonstrating the working of the product and for soliciting orders.

Computers and the internet are relatively new in India but they are making giant strides in the advertising and marketing world. Hence, in the present day context, it is important to understand these media in order to succeed. With on line e-commerce, banking and purchasing it is expected that people with buying power will be more hooked to computers than ever before. It is important to note that information technology is the future of communications with computers and telecommunications joining hands to provide the safest, fastest and most economical means of reliable communication. Advertisers need to understand the medium and take full advantage of the same.

Outdoors relates to hoarding, billboards, neon signs, bus panels, kiosks, balloons and the like. Advertisers use these as reminder advertisements as well as product launch advertisements too.

Several marketers resort to sending technical literature by post to prospective customers, like *Readers Digest* and *Burlington*. This is referred to as direct mail advertising. Point of purchase advertising has been updated with technological advances. Retail shops were content earlier with posters, danglers and innovative packaging of products. Today, largely due to advances in multimedia, interactive screens are used for advertising products. Here customers can get any information about the shop including availability of product, stocks and prices. Many shops run continuous programmes on these interactive screens with animation and product advertisements in order to attract the customer.

Teleshopping is becoming popular but gradually, as the Indian shopper wants to see and feel the product before buying it. Additionally, shopping expeditions are often fun time outings for families and it would be difficult to replace that experience with teleshopping.

Telemarketing uses the telephone as a means to communicate with a prospective customer about the services the marketer is providing and is at times a good approach to elicit the right response from the customer.

Coming to miscellaneous advertising media, we have all seen big balloons in the sky carrying advertising messages, advertisements on bus panels, in the yellow pages, directories, rail and air tickets and even on matchboxes. We have also witnessed advertisements on camels and elephants especially designed for village fairs. Human with unbounded human imagination, newer advertising media can be found or invented.

India has witnessed a lowering of prices of newspapers from Rs 4 to Rs 1.5. This drastic reduction has been possible because of heavy advertising revenue that newspapers get. In order to get a good share of advertising, the press depends on its circulation figures. The higher the circulation, the greater the advertising revenue. And yet, in view of heavy competition newspapers face, they resort to selling and advertising their space too. Let us see how it is done:

1. Rate cards are mailed or given to advertising agencies and advertisers to make them aware of the advertising costs for advertising in the newspaper.
2. Direct mail with copies of successful campaigns and promotional folders.
3. Maps of geographic areas covered by the newspaper with its demographic details.
4. Availability of research material.
5. Copies of special numbers and advance programme of special issues.
6. For TV channels, information about programmes of interest, like films, chat shows, are provided.
7. For outdoor advertising, the availability of hoarding positions and information about the number of vehicles passing that hoarding is provided.

PUBLIC RELATIONS CONSULTANTS

As we compare advertising with a newspaper's coverage, it becomes clear that editorial coverage invariably gives better credence to advertisement, since it appears as the unbiased opinion of a third party, that is, the newspaper editor. Advertisers always seek to boost their image and they look out for public relation (PR) consultants who have good contacts with the press. With the help of these PR experts, the companies get articles about the firm and its products printed in the press. This makes an invaluable and significant contribution towards the image building of the firm as customers give greater credence to unbiased opinions about a product/firm (as expressed through newspaper articles) than they give to advertising.

Public relations as a function helps firms evaluate their standing, brand image and credibility in the market place. Since brand building and brand equity come through advertising and PR, it becomes imperative to integrate them at a certain level.

ANCILLARY SERVICES

Advertising agencies have to take the help of several ancillary service providers, as it would be too expensive to have all the services under one roof. Major services, which are hired by agencies, are as follows:

1. Independent producers for making short advertisements for TV or cinema. Even large advertising agencies do not have a film-making division. They all hire independent specialist producers on contract. These producers are then briefed by the agency about their client's requirements. From this stage on, from the selection of the film script to selection of location, selection of models and cameraman and other issues related to film-making are arranged by the producer in consultation with the agency and the advertiser.
2. Manufacturers of point of purchase advertising material like posters and danglers.
3. Direct mail houses who take upon themselves the tasks of arranging to have an address databank and the advertising material to be sent along with its frequency of dispatch.
4. Manufacturers of containers, packing material and cartons who provide the advertiser with packages, which become part of advertisement.

5. Printing presses, litho press and typesetters, who are required for print media advertisements.
6. Electrical and electronic panel makers.
7. Manufacturers of working models.
8. Gift suppliers.
9. Audio-visual equipment suppliers.
10. Merchandisers.
11. Desk-top publishers.

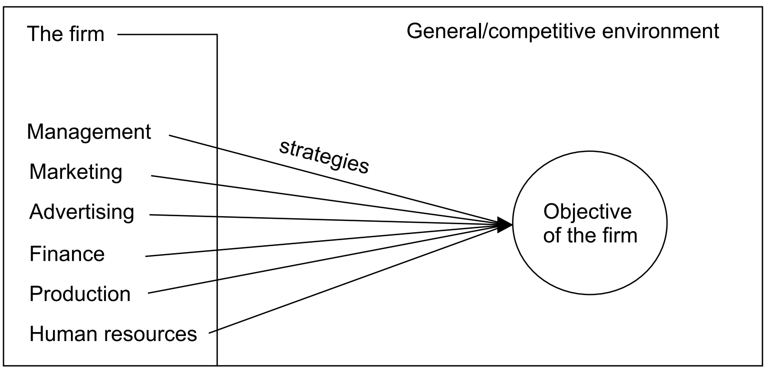
Freelance service providers like copywriters, artists and visualisers, are hired for specific jobs by small agencies like hot shops and at times by small advertisers themselves, who cannot afford to hire an agency.

The challenge of creating a powerful advertisement, which can change the mindset of the target segment, has assumed great importance in the twenty-first century. With advancements in the technology of communication as also in product groups and constant upgradations, more and more money is going to be spent in the years to come on advertising. As marketers and advertisers, firms should be ready with the necessary tools of the job.

Advertising is, as understood now, is part of the marketing game. To better plan advertising, firms will have to reinforce their marketing plans. Selection of markets for the product, distribution network, pricing and the timing of its launch would affect and determine the type of advertisement campaign that should be created and what would be the best media for the same. Therefore it is from marketing plans and budgets that advertising plans and budgets would evolve (see Figure 15.1).

Advertising is therefore part of business strategy as can be seen from Figure 15.1.

Figure 15.1 Advertising—A Part of Business Strategy



Tasks for Students

1. What are the marketing mix factors and how is advertising integrated with them?
2. What are the six elements of the advertising mix?

* * * * * *

OBJECTIVES OF ADVERTISING

Given next are some of the objectives of advertising:

1. Sales as objective.
2. Communication.
3. Prompt direct action.
4. Encourage the customer to ask for information.
5. Giving information to the consumer about the need of the product and the satisfaction arising out of its use.
6. Product success stories to reinforce product/brand loyalty.
7. The benefit story.
8. Attitude change.
9. Reassurances.

Aside from the objectives mentioned here, the purpose of advertising also includes:

1. Launching new products.
2. Informing consumers about modification in products.
3. Informing consumers about changes in price.
4. Informing consumers about new packing or promotional plans, for example, buy one get one free.
5. Informing consumers about the distributor's and retailer's address.
6. Educating the customers about the proper usage of the product.
7. To retrieve lost sales, for example, due to strike in the factory.
8. Reminder advertisements for maintaining sales.
9. To recruit staff.
10. To appoint distributors and dealers.
11. To invite technical staff of industrial customer to ask for literature, come to visit.
12. Competitive comparative advertising.
13. To assist in retail sales.
14. To help salesperson get a foot in the door of industrial customers.
15. To attract investors through special advertisement campaigns.
16. To export/go international.
17. To announce financial results of the firm.
18. To sell directly to the customer, as is done via mail order by *Readers Digest*.

Sales as Objective

Business today aims at continuous improvement in the bottom line. Profit remains the prime motive and to achieve a reasonable return on investment firms have to struggle as competitors are equally focused on the same subject. Advertising is a distinct aid to improving sales. Many advertising agencies refute that advertising should directly increase sales. However, the ultimate use of advertising must be to improve profitable sales.

Communication

Advertising is used as a means of communication as marketers want to provide information about their products to the target segment. Marketers also inform about new products in the pipeline, discount offers, new retail outlets and of late exchange offers.

1. Awareness: The first step in business communication through advertising is of creating *awareness*. For product launches it becomes critical that the target segment gets to know about the product.
2. Comprehension: Advertisement should result in the potential customer getting to know about the features of the product.
3. Acceptance: The third step is the acceptance of the product as a means of satisfying customers needs, whether they buy it or not.
4. Belief: Advertisements must give rise to the belief that the advertised product is the one that the customer needs.
5. Purchase action: Purchase action is the next step, as the customer has fully understood the value he/she will derive from the product.
6. Usage and repeat buy: Usage and repeat buys results from satisfaction of the customer. Products that do not just satisfy the customer but also delight him are likely to have usage and repeat buys.

Thus the chain goes on, which starts with a customer's awareness of the product.

Price Changes

Product prices convey to the buyers a lot more than just what they are paying for. Price denotes quality of the product besides authenticity of supply. For industrial products, price could include packing, taxes, duties and transport/insurance costs. Unless marketers make a clean statement of the prices there can be lot of room for cheating the customers. Hence, good marketers invariably announce price changes through advertisements in the media right for the target segment.

Prompt Direct Action

Buy today and get a 20 per cent discount, the offer ends in just two days—are some of the gimmicks used to prompt the customer into action. These offers must be advertised for letting the target segment know about the offer and to take advantage of it.

Encourage Customers to Ask for Information

Customers are encouraged to seek more information through teaser advertisement. When Bharti Telecom introduced Airtel, their cellular phone service, in Delhi, the city roads were decorated with banners with the message: 'There is something new in the air—Airtel'. Several industrial product advertisements give only basic specifications to generate curiosity and interest which prompts customer to ask for specification details.

Message about the Needs the Product Meets and it's Satisfaction

Message of the need of the product and its satisfaction has become one of the most common objectives of advertising. In the summer months the emphasis is on thirst and how cold drinks help to quench one's thirst. The cola companies are known to spend millions of rupees on advertisements. Advertisements on college billboards for books pinpoints the need for books and how this can be fulfilled.

Product Success Stories

Product success stories are advertised to reinforce the customer's commitment of purchasing the product. Hero Honda have been advertising the fact that their scooter is the only one to have climbed the high mountain pass of Khardungla, confirming the high quality of the product, which in turn would make the customers delighted and prospective buyers would strongly consider purchasing the scooter. Customer's brand loyalty can not be taken for granted by any marketer. Such stories could improve the chances of having brand loyal customers.

Benefit Story

Benefit story is usually the fundamental theme of most advertisements. It could be the promise of fairer skin (skin whitening creams), better health (tonics), better mileage (fuel-efficient cars) the list is endless. Researchers say that people do not buy products; *they buy the satisfaction or delight* they are likely to obtain from the product. A car is not just a car; it is a comfortable means of transportation. The benefit story for the Maruti Esteem brand of car is given in Table 15.2.

The benefit story can be made for any product as it sifts the features from the benefits, which can be gained from a product. These benefits ultimately converge on the basic needs of people as per Maslow's hierarchy of needs (see Table 15.2).

Table 15.2 The Benefit Story Relating to Maruti Esteem Car

Car features	*Benefits from the feature*
Sleek sedan model	Projecting high lifestyle
Comfortable seats, leg room	Physical comfort
Big luggage boot	Family car
High power engine	High lifestyle/youth
Power windows	Comfort
Countrywide service	Peace of mind

One advertisement of the Maruti Esteem featured a husband driving in his Esteem with his wife and a child. He stops the car to buy something and the child brings out the cake from the dickey. The wife puts on 'the happy birthday' song on the tape player and they surprise the husband on his return when he hears the song and sees the cake. Then the family drives away towards the horizon. The advertisement tries to show that the Esteem is a luxury family car.

Attitude Change

When the marketer finds that the competitor is firmly entrenched in the target segment, the advertising becomes more aggressive, as it is necessary to have a change of attitude in the customer group. A lot of comparative advertisements are used for this purpose. The customers are informed in great detail about the shortcomings of the competitive products as compared to their products. However, this approach is wrought with difficulties, as it may not be possible to prove the point and then the competitor can go to the court of law and claim heavy damages.

Advertisements of Colgate toothpaste were too far-fetched as the claims made by them were not easy to prove and hence they had to revise the advertisements.

Reassurance

Reassurance becomes imperative for marketers to keep their customers on their side as competition is always trying to get them to their side. Reassuring advertisements that keep confirming the quality of the product, its availability at a reasonable price and in products with long life cycles are a must to keep the sales going.

Product Launches

Everyday a new product is introduced in the market—sometimes with great fanfare and sometimes tamely. Medimix soap was introduced with minimum advertising. It was only when its sales picked up that the makers started a big advertising campaign, which the company hoped would raise the awareness level about the product and hopefully would increase its market share. Whirlpool started sales of their washing machines with much advertising and is reaping the bounty of a good share of the market.

Product launch provides the biggest challenge to both the advertiser and the advertising agency, since the success of the product depends greatly on its launch.

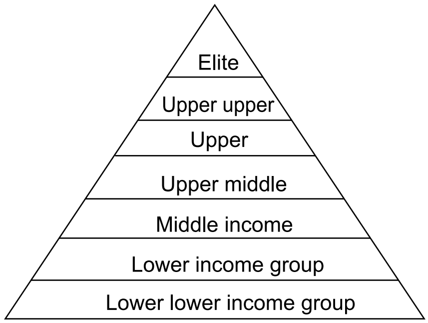
It is important to learn about product life cycle (PLC) at this stage. Each product goes through its life cycle, which starts with its introduction, then comes growth followed by maturity and finally it terminates in the decline stage.

1. Introduction stage: When a new product is introduced in the market, as cellphones were, in the beginning the first buyers purchase it. These people are society leaders, innovators and

experimenters. Naturally, they have the financial power to back their purchases. Since the number of such buyers is small the sales graph moves slowly during this stage.

2. Growth stage: After the first buyers (early birds), the first followers buy the product, who wait to see the utility of the product through the experience of the early birds. Since this category of buyers is larger than the first one, the sales jump up and marketers must provide for increased supplies of the product in the market. (It can be assumed that in India most products are in the growth stage as product demand keeps increasing as, due to the country's economic policies, each year a small percentage of the lower-income group gets into the next higher income group and acquires better purchasing power.)

Figure 15.2 The Income Triangle



In Figure 15.2, the top-most part is of the elitist group with a small percentage of population in it, say 0.5 per cent. The second level is bigger than the first and has a population of say 5 per cent. The third level could have a population of about 15 per cent, while the fourth 20 per cent. The lower income group could be about 25 per cent and the lower lower income group could comprise 30 per cent of the population. Hence, any shift of even 1 per cent of the lower- lower-to-lower and lower to middle income group could change the demographic pattern considerably.

In the introduction stage of the PLC, the product needs major advertising efforts for product launch, which could include concept selling, product introduction, price and distribution network announcements for the target segment customers.

In the growth stage, the early marketers have the initial advantage. They can not relax because competition with 'me too' or even better products comes into the market.

In the maturity stage, as the market gets stagnant, sales is almost static, only replacement purchases take place. In such situations, firms have to plan their strategies. They have to decide whether they want to stay in the market with heavy advertisement or divest and quit.

In the decline stage of the PLC, with severe competition many firms do quit, as can be seen in the video cassette recorder market. If the firm decides to stay, it will have to create new market uses for the product.

Product modifications call for informing the prospective customers about what is new and what it would do for the customer or what extra benefits are available in the new product. The computer and IT industry is the most innovative one where everyday something new happens and marketers want to be the first one's to introduce the product. The PLC of such constantly developing products is short and the marketers have to reap the benefits of high sales in the shortest possible time. Hence, heavy doses of advertisements are fed to the customers.

Price Changes

As is known, price is normally the single most important feature of a product, which helps customers decide about its purchase. Price changes, discount offers, extended guarantees and warranties have become part of marketing strategy. However, unless the customer gets to know about the changes, he cannot take favourable decisions. Hence, there is the need to advertise price changes. In order to motivate customers into buying action price changes are made. If the announcement of price reduction is made well in advance, the competitors will get time to take pre-emptive measures, negating any benefit which could accrue by price reduction in terms of increased sales. Timeliness is of great importance when firms want to announce price reductions. Maruti reduced the price of their 800 cc car and made a sudden announcement of this, which gave a big boost to its sales during the ensuing period.

Package

When a firm feels that some staleness has crept into their product and product modifications are not possible in the immediate future, they change the package, giving it a modern look, which in turn attracts the customer's attention resulting in increased sales.

A look at the FMCG firms would confirm that package change is a common phenomenon. And it does tend to increase sales, provided the customers are made fully aware of the new package, else, some customers may not buy the product considering it as a new untested product. This is done through advertising.

Promotional Plans

Firms face loss of market share and sometimes the market shrinks albeit temporarily. In such events, firms want to make purchasing of their products more attractive than that of their competitors. This is done by means of promotional plans. Buy one get one free, buy a car get a stereo free, get a TV set and get a walkman free; these and similar offers help firms to gain extra share of the market.

In fact, such offers amount to price reduction to an extent. Yet, while price reductions have a tendency of being of a more permanent nature, promotions can be withdrawn as and when the firm thinks it has achieved its market share goal. Bringing back original prices gives the firm back its profit margin. However, Maruti took nearly a year before they could restore the original price of its 800 cc model.

Address of the Distribution Channels

Products sell through the distribution channels; the importance of the channels cannot be minimised unless an alternative system of sale is found out. Firms have to inform the segment customers about the location where they can get the product. Therefore they advertise the names, addresses and phone numbers of the sales outlets. As the channel members also benefit from the advertisements, firms like to have cooperative advertisement campaigns where the middlemen/persons in the distribution network contribute towards the advertising expense.

Educating the Customer about Proper Usage of the Product

Some products are highly technical in nature and wrong or improper use of the product could make it unserviceable. Even cars usage, mileage and functioning would improve if it is maintained properly. During the sale of manufacturing plants, machinery and capital goods, such education of the customer is almost mandatory. Even in smaller products like domestic electric appliances, voltage and current specifications are part of the education programme, which is advertised to reach the target segment.

Retrieving Lost Sales

Sometimes firms lose business due to reasons beyond their control, like strike by workers or natural calamities. In such events, as customers who need the product have bought from competitors, it is important to advertise the fact that the firm is back in business. To further supplement their marketing efforts, firms can resort to some promotional plan and advertise it. This would be the best cover for the earlier mishap.

Reminder Advertisements

Most general advertising noticed is in the reminder category. Pepsi and Coke advertising blitz, which often takes the shape of business war, is an excellent example of reminder advertisements. Amul has been in business for a long time now. It is a well-established brand with a good market share, innovative marketing and successful reminder advertising. By the way, Amul uses cartoon clips to good effect in these reminder advertisements. Comic or cartoon clips can be used if the product justifies it.

Advertisements for Recruiting Staff

Advertisements are given for the recruitment of staff by firms. These could be part of classified section of newspapers or these could be on special pages. These days most newspapers and business magazines have sections devoted to recruitment by firms.

Recruitment advertising too has an indirect effect as they subtly remind the customers of the firm's existence.

Advertisements to Appoint Distributors, Dealers, Agents, Retailers, Franchisees and C&F Agents

Advertisements are given to appoint distributors, dealers, agents, retailers, franchisees and C&F agents. Marketers normally know the people who are in the same trade and they can opt from that list when planning to appoint a channel member. Advertising can give firms a wider selection. In case of new areas with geographic business expansion, advertisements can be a real boon.

Announcing Financial Results of the Firm

Firms have to declare their semi-annual and annual profit and loss accounts and the balance sheet. These periodic results can help in consolidating the brand equity too.

Industrial Products Advertising

For industrial products advertising is meant to assist the salespersons in getting appointments with the customer personnel. Besides, since normally big money is involved in the purchase of industrial products, customers need a lot more information in the first instant even to arouse their curiosity. Hence industrial product advertising takes two different forms as follows:

1. Advertising details of the product.
2. Image-building advertising, which keeps the firm in the constant focus of the buyer.

Attracting Investors

Firms planning to get investors to buy their shares resort to heavy advertising to create not just a ripple but a storm in the financial market so that small and big investors queue up to buy their shares. There are specialised advertising agencies like Saubhagya and Clea that have the expertise to make such advertisements.

Aid Firms in Going Global

With global business becoming a fact of life, firms would be neglecting international markets at their own risk and peril. Several Indian firms are already multinational corporations and more are to follow. In such a situation, international advertising has assumed importance. Several MNC advertising agencies have set up offices in India and are providing advertising support for multinational businesses.

The main objectives of advertising are, to increase profitable sales, improve market share and the brand image. Brand image builds brand equity, which in turn brings brand loyalty.

Advertising as per Marketing Guru Kotler

Philip Kotler on marketing: 'The best advertising is done by satisfied customers.' The five Ms of advertising (according to Kotler):

1. Mission—To include sales goals and advertising objectives.
2. Money—For considering the stage in the PLC, market share and consumer base, competition and clutter, advertising frequency, product substitutability.
3. Message—Generation, evaluation and selection, execution and social responsibility of the message.
4. Media—Reach, frequency and impact, major types of specific chosen media, timing, and geographic media allocation.
5. Measurement—Impact on sales and awareness.

Source: Kotler, Philip. *Marketing Management*, 11th Edition. Pearson Educations.

ADVERTISING AGENCY—ITS WORKING

In the new millennium, the business scene can be described as having increased competition, seen the introduction of better products, the availability of new media and the constant threat of new entrants and substitute products.

Advertising agency have therefore becoming important and yet, background partners of firms. As there are several different types of advertisers there are different types of advertising agencies to cater to their demand. With *specialised product groups* coming in the market, like computers and peripherals, video products, telecom products, the need of specialised agencies has been felt as never before. Sure enough such agencies are evolving or existing agencies are hiring persons who are technically qualified to understand the new business.

Let us see a typical organisation chart of a full function advertising agency (see Figure 15.3).

Figure 15.3 Full Function Advertising Agency

Chief executive officer

Client group 1	Client group 2	Client group 3	Client group 4
Account management	Creative services	Media services	Research services
Account manager/executive	Art director, copywriter	Press	In-house research
Account planner	Visualiser	Electronic media	Outside research agency

A functional head, who has the experience and skills, is positioned in each of the areas—account management, creative, media and research. In some agencies they do not have a research department and they hire the services of outside research organisations like ORG Marg in India.

Full-service agencies are capable of providing the entire range of advertising services to their clients.

The work of an advertising agency work starts with a *brief* from the client to their account executive. The brief constitutes of the following points:

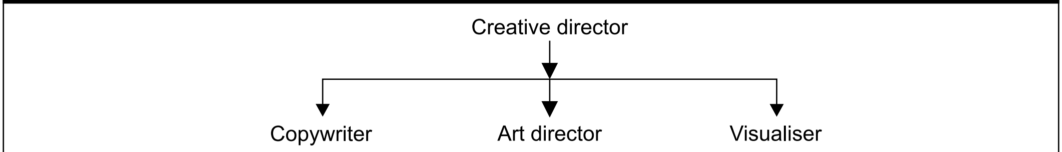
1. Details of the client's activities.
2. Clients market share, brands and their equity.
3. Competitive brands and their value.
4. Marketing objectives.
5. Advertising objectives.
6. An idea of budget meant for advertising.

The role of the advertising agency in marketing efforts of a firm can be compared to that of a doctor who treats a patient and must be told everything necessary for the patient's treatment and cure and some type of confidentiality is expected from the agency.

The account executive (AE), works as a close link between the agency and its client. He represents the client at the agency and ensures that the agency works within the framework of the client's brief within the allotted time. The word deadline is perhaps the most used word in any agency as it has to meet the target date of releasing the advertisement campaign to the media after its acceptance by the client. The AE arranges the agency resources—creative, media and budgetary—to get the best campaign for the client. The AE puts across the agency's plans and the campaign to the client to get their approval. It is more of a sandwich kind of a role, yet it is very satisfying once the campaigns planned are executed and bring the desired results.

The creative department is equally important in an advertising agency, whose organisational structure is shown in Figure 15.4:

Figure 15.4 Advertising Agency Creative Department



The creative director is responsible for the entire creative work of the agency, including copy-writing, art design work and planning sketches for TV commercials. The visualiser's job is to ensure that the copy and art is placed at the right places and the total effect of the advertisement is eye catching. The copywriter writes the copy, the written word in any advertisement. The art director creates the visuals, the drawings, photos and sketches in the advertising campaign. The art director also works as the visualiser in most advertising agencies.

They also focus on the suitability of the chosen market segment/s. For this purpose they either have a research unit of their own or they hire an outside agency for gathering information. Some agencies have research directors to head the department.

In certain agencies, the trend is to have an account planning department which arranges for the customers viewpoint, gathered from market research to interact with the creative and media departments for the best results.

The media director heads the media department where the media research is conducted to find which would be the right media for the campaign. They plan the media, frequency for advertising;

its cost and coverage. They are responsible for purchasing media space for print media and time for the electronic media. The production department does the print, broadcast and telecast production work, including hiring freelance TV commercial makers.

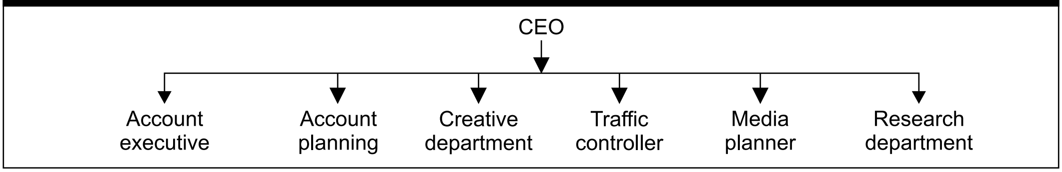
The traffic controller department coordinates the work of the different departments in the agency and ensures that no client's work is side-tracked or delayed.

The marketing department of the agency arranges information on the market segment, what excites the customers, what are the electronic media, like radio and TV that the target audience uses.

Agency management is conducted on a day-to-day basis, which, among other activities, involves money and man management.

An agency's organisation chart is given in Figure 15.5:

Figure 15.5 Functional Areas of a Full Service Advertising Agency



Most full-service agencies have similar structures; the designations may differ from agency to agency. Full-service agencies are geared to provide a complete range of services to its clients, to plan, create and implement the advertisement as per the client's needs. In India, HTA, Clarion and Lintas are some of the full-service agencies. The agency proposes complete communication solutions to its client—creative, budgetary and the media.

Limited-service agency usually do not provide full service. They concentrate on the creative aspects of advertising. They are well appreciated and used by clients looking for high quality creative work while depending on other sources for media planning and execution of the campaign. They are also known as creative boutiques or hot shops. Because of their lean organisation, they can be quite competitive.

Agency of records is a large agency with financial muscle as it buys media in bulk and sells the space not needed by it at a profit of 2 per cent to those agencies who are looking for media space at the peak season.

Specialised agencies operate to serve niche markets like financial advertising, resorted to before a firm plans to have a public issue of its shares. In India Clea and Saubhagya are two such agencies.

Agency profits and payments come from commissions they get from the media for selling space to their clients. The rate of commission in India is 15 per cent. Besides, agencies also get fees directly from their clients, mark-ups and incentive-based commissions. For media like outdoor, special boards and directories, the agency puts a mark-up on the price given by the media and gets paid for its efforts. In the case of incentive-based commissions, the client pays the agency on the basis of the results obtained by the advertising campaign.

ADVERTISER AND THE AGENCY SELECTION

The advertiser looks into the following aspects of different agencies while making a choice:

1. Experience the agency has in the firm's area of business.
2. How creative is the agency. For this purpose either the firm can ask for a speculative campaign or go by the agency's past records.
3. The agency should not be handling competitive products.
4. The agency's reputation for timely execution of campaigns and as being a good agency is considered.
5. The size of the agency is also a factor considered. Also, firms need to find out if they are full-service advertising agencies or not. Many times the local office may not have all the departments and the agency might send its work to its head office, a process which can be time consuming. If the advertisement needs to be made very quickly, such agencies, even if they have a good reputation, need to be given a miss.
6. Whether the agency has experience of international advertising or not is another criterion to be considered.
7. The ability of the key persons.
8. Compatibility with the firm's personnel.
9. Cost consciousness of the agency. Do they throw away a client's money needlessly?

When an advertiser decides to appoint a new advertising agency, he calls selected agencies to present their credentials and advertising concepts mainly in line with the firm's advertising needs.

The next step is asking the short-listed agencies to present a speculative campaign to the advertiser. Since the speculative plans are time consuming and cost money, many agencies refrain from making such a presentation. Advertising agencies seldom advertise to get clients. Usually, prospective clients see their work and the clients approach the agencies. If any agency has to openly go after a client, it is done subtly through direct mails or informally at social gatherings.

The following gives an idea of how to select an advertising agency:

ADVERTISING AGENCY SELECTION PROCESS

The following is the method of selection used by the advertisers for selecting an advertising agency:

1. Account contacts: The agency should understand the client's business, both commercially and technically. If required the agency should hire proper technical staff for the purpose as any mismatch in understanding the brief could mean more time wasted with the agency and, in the worst case scenario, the wrong advertising message going to the media and through it to the ultimate customers.
2. The agency maintains confidentiality and does not handle competitive products.
3. The agency meets deadlines always as a habit.
4. The agency's staff turnover is within reason.
5. The agency gives great importance to its creative work which is usually good and unique and not just a distorted copy of some other advertisement, Indian or foreign.
6. The agency maintains a high standard of quality as per the firm's needs.
7. The agency has an eye on costs too.
8. The agency has a good rapport with the media and PR consultants.
9. The agency media plan is consistent with the target market segment for the firm's products.

10. The agency knows the competition's media strategy.
11. The agency knows the market and can confirm their claim from their research work.

The relationship between the advertiser and the agency:

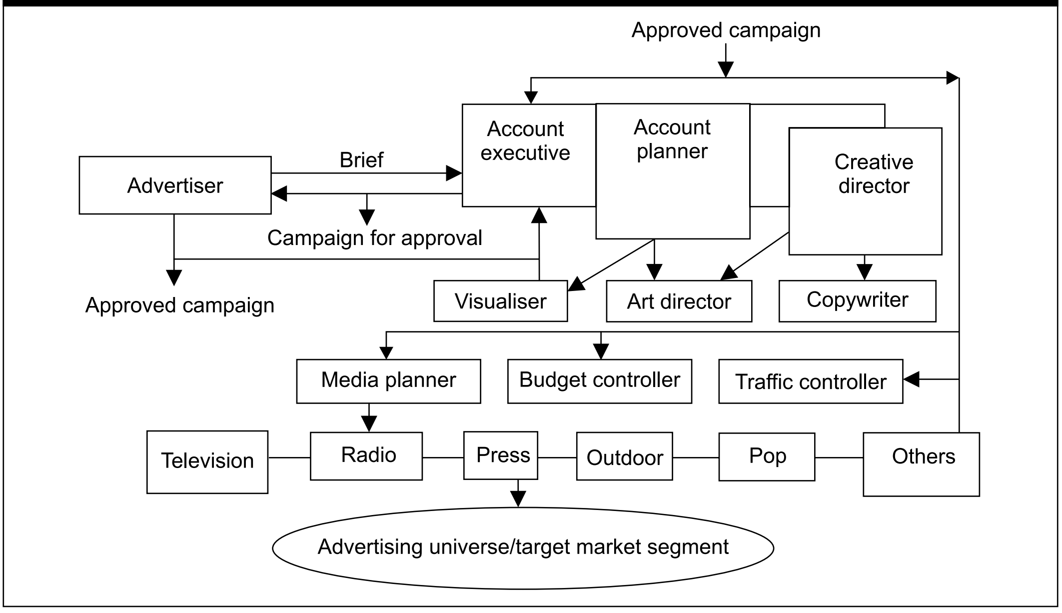
1. The advertiser should know the working of the agency and its key personnel.
2. Ideally, the agency should be used as an extension of the advertiser's marketing department.
3. Acceptance of the advertising budget and mode of payment must be clearly defined and understood by both the advertiser and the agency.
4. The agency should allow the advertiser to visit the agency.
5. The agency should simplify its paper work.
6. The AE should understand the structure of the competition.
7. The agency should always meet deadlines.
8. The agency should have specialised people to handle technical aspects of the client's brief.
9. The agency should inform clients about legal and ethical sides of advertising their products.

For best results, advertisers do well by having an advertising manager in their marketing department. These managers have to liaise with the advertising agency and other service providers. They have to understand the 4Ps of their firm and of the competition too. They give the brief to the agency. They have to plan the advertising budget in association with the marketing manager. They are also required to arrange for press releases as publicity material.

Advertising managers have to assess the efficacy of the advertising campaigns by keeping a track of communications both verbal and written received on the basis of the advertising campaign.

A graphic representation of the working of an advertising agency is given in Figure 15.6.

Figure 15.6 Advertising Agency in Operation



Some large business houses have their own in-house agencies. The advertiser in such cases has total control over the agency. The agency is tuned to the work culture of the firm and thus better appreciates the type of work required from the agency. They know the product and the plans and policies well and the brief requirements do become really brief. The agency becomes virtually part of the firm's marketing team and this helps in better-coordinated efforts. The agency also is committed to providing the same, good service and undivided attention to even smaller firms within the larger organisation.

In-house agencies have the disadvantage of making clients outside the group feeling neglected in favour of house clients. Hence, the in-house agency has to understand the trade-offs required or it has to let go of outside commitments.

AGENCY RATING

Advertising agencies are rated by the advertisers on the following parameters:

1. Creativity, originality and liveliness.
2. Keenness in understanding the client's problems.
3. Management team.
4. Understanding of the market and its problems.
5. Calibre of personnel, their consumer orientation and their experience.
6. Is it progressive and flexible?
7. Does it have a good media department?
8. Experience in using research work for the client's benefit.
9. Its growth and expansion.
10. Can it organise *below the line* advertising material?
11. Worldwide network.

ADVERTISING RESEARCH AND DEFINING ADVERTISING GOALS FOR MEASURING ADVERTISING RESULTS (DAGMAR)

We have seen that in order to be focused on a firm's overall goals, the marketing department has to play a vital role as the revenue earnings of a firm are mainly from selling of products. Hence, once a firm's goals have been formulated, the marketing and advertising people set their own goals and objectives.

Hence, DAGMAR becomes effective only when continuous advertising research is conducted as per requirements.

ADVERTISING RESEARCH

Advertising research is extensively used by both advertisers and advertising agencies, to pre-test the campaign, evaluate the media's effectiveness and understand the market segment best suited for the firm's products. Most firms arrange for market research for obtaining the market segment's viewpoints and preferences about products in their category. These researches tell about product acceptance levels. Advertising research tells the advertisers about the type of creativity, the language including slang and dialect that would stimulate the target segment.

It will be difficult to find an advertisement of a perfume, which gives its chemical formula. Instead, the advertisement would talk about love and euphoria created by the perfume. Advertisement are the result of the research conducted which says that in personal care products people are interested in what the product would do to them. It is said that nobody buys a product. They buy the performance promised or given by the product.

Media research is conducted to establish the suitability of a particular medium. Some advertisements have a dotted line cut-out telling the readers to cut it and post the same to the advertiser for additional information, free samples or a demonstration of the product. The number of prints of the media is compared to the cut-out responses to know about its readership and correctness of the media for the target segment.

Research on the advertising copy is done with the help of primary research, when individual customers are contacted to get their reactions to the advertisement. It confirms the acceptance level of the campaign and can be used to determine the frequency of insertions in the media.

Advertising research helps in making advertising campaigns more powerful so that they become better able to perform the task of meeting the advertising objectives. Advertising costs are high. Research ensures that the advertisement is creatively acceptable, in the right media with the correct frequency and for the chosen market segment.

The current Nescafé advertisement starts with a woman enjoying a mug full of the brew. Research had shown that women enjoy coffee during a lull in their work, be it household chores or office work. Later in the advertisement some men are also shown as it would be too risky to ignore a major customer group, in fact, 50 per cent of the population.

Advertising research results thus show the advertiser how to place correct advertisements at the correct places and at the most appropriate times thus making them both effective and efficient.

After PR, advertisers are interested in finding out the likes and dislikes of the customers and reasons for the same. Research is conducted by doing primary survey and by interviewing customer groups. Such a research is similar to market research, as information needed is akin to the kind required in market research.

Advertising research can also be conducted by *observation*. Researchers stand near shopping malls and observe the shoppers, their likes and dislikes, their behaviour pattern. Such a researcher has to note down his observations without prejudice otherwise the deductions would be entirely lopsided. It may be useful to note that watching/observing customers in shops for collecting data without their knowledge may not be purely ethical. Also, asking questions may look like a selling gimmicks rather than advertising or market research.

The next type of research can be termed as idea research where an attempt is made to understand how some changes in an advertising campaign would affect the result as far as the advertising objectives are concerned. For example, would an increase in advertising size improve its acceptance, or its frequency improve top of the mind recall.

Care should be taken in the following areas while planning the research:

1. Time and money spent should be commensurate with the objective of the research. For example, if the benefit to be obtained from the research amounts to Rs 2 million, it would not be prudent to spend Rs 2.5 million on research. In the same way, the time factor must be considered. If for

instance, research needs to be done concerning the fashion industry it has to be very quick. A research spanning one year is of no use in the fashion industry where trends become outdated within that span.
2. Research results would, at best, give indicators for decision-making not perfect answers.
3. Going through the exact methods to be used by the field researchers in detail would make you more aware of the nitty-gritty and become less vulnerable to problems, which can occur due to subjectivity of the researchers.
4. Be specific about what has to be done rather than leave it to the field people who may come up with unnecessary, redundant data. It may look good that you are in the know of several facts, but you should understand the cost and time implications. It is better to get just enough information.
5. Research budget needs careful analysis. It may be apt to spend some amount of money when the decision to be based on the research is for large sums of money and it includes avoidance or limiting risk for the firm. Naturally, for simple problems, many times previous experience is the best guideline for decision-making and no research needs to be conducted.
6. Getting the research done for your book-rack or your shelf only is not a good idea. Unless you are sure that people who are going to use the research findings it may be only an exercise in futility. Remember that people generally do not want to change their ways just because of some research findings.
7. Many times the firm may already have the data called for or the information may be available with another source, for example, with research organisations like ORG Marg.

Secondary research data is available from a variety of sources, as it is research already done by somebody earlier. Government publications, industry data, magazines and the internet are some of the sources of secondary data.

Advertising research can be carried out *before the launch* of the advertising campaign. It helps in media planning, copy testing along with test marketing the product to be advertised.

Advertising research carried out *during the campaign* focuses on dealer audit, sales analysis and customers' response based on contests or reply cut-outs given with the advertisements for customers to fill in their comments and send back to the advertiser.

After the campaign gets over, as per DAGMAR, *research is done to assess the effectiveness of the campaign* on the parameter of the objective of the advertising campaign. At this time *consumer panel surveys* are conducted for structured responses. Consumer panels are predetermined groups of people mostly of one geographic and demographic segment like lady members of a kitty party. These persons are in the know of their task of making assessments of the campaigns and inform the advertiser about their views. Selecting research sample needs knowledge of the market, the universe and quantitative techniques.

Gathering information or data collection can be done by in-depth interviews where the respondent (interviewee, one member of the sample chosen), is asked questions from a well-structured questionnaire. The respondent can give his own views. A lot of time is given for each question. The interviewer must be adept at organising such interviews and later on in making a coherent and lucid report. When the interview is conducted in a well-accepted and known group called the focus group, the same type of in-depth incisive questions can be asked. The problem that can arise is the conflict within a group with diverse views.

The questions can be of two types. They can be simple *straightforward types* where the answer can be yes or no. However, when it is important to understand the mindset of the respondents it is better to use *projective* questions which can be vague and which would evoke emotional, sentimental and creative answers.

What product you associate with Shah Rukh Khan?
When you think of colour what do you think of?
Sixty years young, climbing the staircase?
Just do it. What product does this statement convey?

How do you rate the following hotels in Delhi:

1. Maurya Sheraton
2. Taj Mansingh
3. The Oberoi
4. Hyatt Regency
5. Taj Palace

The way I look is important to me:

1. Strongly agree
2. Agree
3. Neutral
4. Disagree
5. Strongly disagree

Surveys, observations and experiments with the help of questionnaires, checklists and plans help in completing the advertising surveys. Then comes the important aspect of analysis and report writing.

Research, as stated earlier, must be used or else the time and money utilised is a total waste. Research results enable firms in reassessing their goals on the basis of new opportunities, in confirming the target segment and creating a useful message for the segment.

Advertising results can be measured by simple brand recall tests with the target segment. These can be aided or unaided recalls. Questions like: 'Which is the best toothpaste in the market?' or 'Which blue and red bottled drink gives most satisfaction?' can be asked.

Research confirms the strong views held by the firm. If there is a major divergence then the objectives, sample and methods adopted in the research need to be looked at again. A very apt example of how the research could go wrong is given next:

> A firm planned to start the manufacture of fax machines in India in 1980s. The task of finding out the demand and product acceptance levels was given to an outside research agency by the firm. The result was flattering inasmuch that 80 per cent of the respondents were looking forward to buying a fax machine. When a note was sent to the Department of Telecommunications, Government of India, it came back saying that the telecom network was not efficient enough to make fax a success. (It was only in the late 1980s that digital electronic exchanges and fibre-optic cables made the telecom network good enough for fax to operate.)

Advertising research is a part of marketing research, confined to the development of the advertising plan, creative work, market segment and the best possible media that would cater to the segment. The research should increase the effectiveness and efficiency of the advertising campaign. Data collection is done from primary sources as also secondary, already available sources. In primary data collection, it is important to select the sample correctly. The research steps in the international markets are:

1. Setting up goals for the research.
2. Finding the sources of secondary information/data.
3. Analysing the secondary data.
4. Planning sample for primary research.
5. Data collection.
6. Data analysis and report writing.

The advertising campaign is pre-tested and post-tested to ensure that it works. Research does not provide results or facts, it only gives tendencies. Sample size determines the accuracy levels. At times it is important to sacrifice accuracy for speed.

Guidelines for Making a Questionnaire

International research must take into account the subtle differences in the meaning of words otherwise the entire research would go waste.

1. Ask basic questions about the respondent's name, address. While asking him his age and income, give a range: age between 18–30 years, 31–45 years, 46–60 years, 61 years and above, etc. Income between Rs 3,000–7,000, Rs 8,000–15,000, Rs 16,000–30,000.
2. Questions with possible two answers: Did you buy the watch yourself, yes or no?
3. Multiple choice questions: Who advised you to buy the watch, your father, uncle, sister or cousin?
4. Likert scale questions: The watch is considered best value for money. Tick the response you consider right: (*a*) strongly disagree, (*b*) disagree, (*c*) neutral, (*d*) agree, (*e*) strongly agree.
5. Differential scale: The hotel is: large ………………… small
   modern ………………… outmoded
   Hotel staff is: experienced ………………… inexperienced
   courteous ………………… disinterested

Questions on importance of the product can be put on a scale of extremely important, very important, important, not very important to not at all important. Intentions to buy can be asked on a rating scale as sure to buy, perhaps, may not, will not and will never buy.

Open-ended questions like, 'what do you think of our hotel?' can be answered by the respondents in any way they like. Associations can tell you about the aided recalls, like:

Welcome
Hotel
Travel

MEDIA PLANNING AND PRODUCT POSITIONING

We have seen, from marketing plans we can develop advertising plans. As a step further, from the advertising plans the media plans will emerge. Advertising campaigns send messages to the prospective customers. It is therefore important that the message carrier, that is, the media is chosen wisely. Besides, the timing and timeliness of the message gives it the required thrust and acceptance. Major advertising cost comes from the media costs. It becomes imperative that care is taken for proper and optimum use of the media. Hence the media planning has assumed a vital role in the exciting game of advertising.

Media Planning

The market place is brimming with a large variety of media. Therefore an intelligent approach in deciding the proper media is media planning.

Some of the well-known and often used media are:

NEWSPAPERS

They provide information about politics, sports, business and socio-cultural life of a community. A large percentage, about 80 per cent educated people read newspapers. Educated and well-to-do people read English language newspapers; others read Hindi or regional language papers. Newspapers are printed from most metro cities and due to heavy competition the prices of newspapers have been going down. The profits of a newspaper come from the advertisements printed in them. Newspaper owners have not only accepted their role as a vehicle of advertisements, they have geared themselves up for improved coverage, better print and paper and competitive advertisement rates. Fast moving consumer goods firms having wide distribution network use newspapers. They are good for providing information about products, firms and their local distribution network. The main shortcoming of newspaper as a media is that the readership of newspapers among the youth is limited.

Newspapers are of several kinds:

- National English language
- National Hindi
- National business
- Regional language
- Newspaper supplements
- Midday and evening papers
- Tabloids

Newspapers have their own advertising departments, which are engaged in selling advertising space. They pursue both the advertisers as well as the agencies to book the space. Special efforts are made during festive seasons and occasions like cricket test matches.

The newspaper sells space at a column centimetre rate. There are special rates for special positions in the newspaper like the front page, solus position, when no other advertisement appears on the same page/place. Advertisements for sports goods can be usefully advertised on the sports page of the newspaper. Newspapers are now accepting colour advertisements too. Teaser advertisements are carried out in split runs in newspapers, when a part of the advertisement is carried in one part of the newspaper and the rest in the next part. On their part, newspapers carry out surveys about buying patterns, habits and seasonality of sale of selected products.

The main advantages of newspapers are as follows:

- Advertisers can focus on the geographic area they want to cover.
- Newspapers get their readers total attention.
- Size of the advertisement does not matter.
- Advertisements can be put in the newspapers quickly.
- It is easy to talk to the readers to know their views about the advertisement.

MAGAZINES

Magazines cater to different categories. There are magazines exclusively for consumers, for film fans, for women and then there are technical magazines dedicated to science and technology, computers, and other engineering disciplines like chemical engineering, genetics and medical sciences.

Magazines can be categorised as follows:

- Political
- Social
- Professional magazines for doctors and engineers
- Regional language
- Film
- Computer based
- Wild life
- Arts
- Theatre
- Newspaper magazine supplements

Magazines carry information about current events, new developments and plans of the concerned area. Their coverage is limited, their getup glossy but could be of indifferent quality. They are published from most major cities and in all possible languages of the land. The price of magazines depends on its coverage, gloss and can be very different for magazines even from the same town, publisher or discipline.

Magazines adorn the homes of the elite as also of the commoner. They put the buyers in a special group and boost their egos. The disadvantage of advertising in magazines can be the excessive clutter of advertisements in most magazines. And yet, the elite and the busy business magnet have hardly any time for looking at anything else except some business magazines.

The main advantages of magazines as media are:

- It is easy to select magazine for the target segment.
- Readership surveys are easy through magazines.
- Can plan advertising to equate with the magazines interests.
- Message stays with the reader for a long time (as long as the magazine is in front of the consumer).
- Advertising quality can be good.

RADIO

With the advent of television, especially the colour variety, radio has lost much of its appeal at least in the areas where TV coverage is good and TV signals strong. In the remote villages in India, only radio is available and it remains a good advertising media. From film music to news, radio provides entertainment of the audio kind, which is useful for advertising products for *rural markets.* Frequency modulation (FM) has emerged as a major technological development because of its excellent voice quality in a given range of geographic area. Teenagers in metros are hooked to FM radio programmes. The media caters to the entire country. The media costs are comparatively low for radio.

The major disadvantage of radio as a media is that there is a lot of advertising on this media. The major advantages are:

- It is easy to place the advertisement in local radio station.
- It is easy to conduct listeners' research.
- Can be connected to radio programmes.
- It is possible to increase or decrease the advertising frequency within a reasonable notice period.

TELEVISION

Television is definitely the most sought after entertainment media. It can be quite intoxicating in the sense that people get hooked on to TV programmes. During the first telecast of the epics Ramayana and Mahabharata, most city people were glued to their TV sets, cancelling even important appointments. For advertisers, TV is not media with a big reach but also one that allows it to demonstrate its products. These demonstrations along with the advertisement message help to reaffirm the customers' views in favour of the product.

Television caters to the entire family, as during the day, each member of the family sits down to watch one or the other TV programme, albeit at separate times. During noon and afternoon, when the husband goes to work, the housewife watches TV. Without meaning to be gender biased, the programmers place programmes of women's interest at that time.

Andrew Sullivan wrote in the *New York Times Magazine*, 'Meanwhile on TV, America's Fox Family Channel has introduced two separate channels for boys and girls, boyzChannel and girlzChannel, to attract advertisers and consumers more efficiently.' Fox executives told *Wall Street Journal* that this move reflects what TV researcher tell them about viewing habits: In general terms, girls are more interested in entertainment that is more relationship-oriented, while boys are action-oriented.

When TV started for the first time in India in early 1960s, telecast was limited to two hours a day of black and white programmes. From those days to the present times, with continuous 24 hour programming and that too on more than 40 channels, TV has taken giant strides forward.

The popularity of TV programmes is such that advertisers are ready to pay huge amounts for telecasting their advertising films as they provide wide area coverage and reach out to a very large audience. With demonstrations of the product in use, TV advertising has taken over the role of personal selling to a large extent.

The only negative aspect of TV advertising is the high cost of advertising. With rising income levels and the race for purchasing new products, advertising expenses are on the increase with no sign of coming down. The positive points of advertising on TV are:

- Ability to demonstrate the product as a working model.
- Creativity can reach new heights.
- Advertising quality can be excellent.
- Can reach millions of viewers.
- It can be telecast as often as the budget permits.
- Audience research can be easily conducted.

OUTDOOR MEDIA

In the area where hoardings, billboards and kiosks are placed provide high exposure advertising. Car owners are the people most affected by outdoor advertising, so much so that in Delhi the government has put a ban on outdoor media to avoid distractions caused by hoardings.

The cost of the media is commensurate with its limited usage. The media, where allowed by the government, is most often used to promote the firm, its brand and one single most important (at a time) product of the firm.

The negative aspect of the media is its limited reach, lack of opportunity for giving detailed product information and in some cases government regulations.

The plus points of advertising on outdoor media are:

- Advertiser can select geographic coverage.
- Creativity possibilities are good.

POINT OF PURCHASE (POP)

In retail business, POP plays a major role in advertising. The following are the usual POP materials used:

- Posters
- Danglers
- Sign boards
- Streamers
- In-store closed circuit TV, which continuously shows product displays at various levels as in-store commercials
- Merchandising that decorates the shop displays
- Shop main signboards
- Window displays

In most shops due to multiple brands on display, there is a clutter of POP, which takes away the main benefits of POP.

The plus points of POP are:

- Consumer research is possible.
- Impact is direct on the viewer.
- Can be changed easily.
- Advertising material creativity can be directed to the shop's clientele's needs.

DIRECT MAIL

This is advertising in the form of letters to customers. The letters can be crafted with a personalised format and approach. They sometimes take the role as the chosen media, especially in high-value personal products like digital diary, personal computer and service industry offers like hotel and airline deals. Care should be taken to ensure that the direct mail letter looks like a normal business communication otherwise there are chances that the letter will be put into the waste-paper basket. With a plethora of mail received by executives, they read only the ones which look businesslike and readable.

The target market segment can be reached quite accurately with specific mailing addresses being available to the marketers from trade and industry associations.

The cost of direct mail can vary on the basis of quality of the materials used and the size of the mailing list. Since direct mail is targeted to only the real consumer with no aberrations, they can be focused and personalised, making the readers feel important. Care should be taken to ensure that even from the envelope the mailer gives the impression of a personal letter. Else the direct mail has the possibility of being consigned to the reader's waste-paper basket. As most corporate buyers get hundreds of direct mailers daily, they have to select only just a few for their perusal. Hence, even with its close contact with the customer, direct mail remains a back-seat media.

Direct mail scores high on the following points:

- Selection of customer groups.
- Geographic coverage.
- Flexibility in creativity.
- Size and frequency of the message can be as desired by the advertiser to suit the product.
- Advertisements quality can be good.

CABLE TELEVISION AND SATELLITE CHANNELS

While cable TV provides local programming, satellite channels offer fare from all over the world. Cable TV is developing quite fast. It gives priority to local news and events. This is a good media for retail shops, stores and low-volume businesses!

Satellite TV, provide channels from all over the world, like CNN, BBC, Star, Zee, National Geographic, Animal Kingdom besides our own Doordarshan channels. Each one has its own viewership, which provides flexibility and focus for the desired market segment to the advertiser. Satellite TV is popular with the upper class with a growing spread and with enthusiasts of sports, movies, events and talk shows.

The media cost of local cable TV is reasonable while satellite TV costs vary on the basis of individual programme television rating points (TRPs), which are indicators of programme viewership and popularity.

The advantages of satellite media are:

- Advertisements can cross international boundaries.
- Creativity gets major thrust.
- National marketing networks can make full use of the media.
- Viewership consists of even the elite members of society.

Cable TV has the following plus points for advertisers:

- Low cost advertising.
- Local brands can use the media to their advantage.
- Demonstrations of the working of the products can be done easily.

The quality of telecast of cable TV, however, is suspect at times.

MISCELLANEOUS MEDIA

Starting from yellow pages, to directories, encyclopaedias, rail and air tickets, bus panels, balloons, elephants and camels the list is endless. Yellow pages, in particular, have caught the fancy of the middle and upper class in urban India. Most prospective customers use the yellow pages. Its usefulness comes from the fact that people look at the yellow pages just before making purchase decisions. However, most yellow pages do not dynamically promote a particular product. These media are mostly supplementary media used for reinforcing the main thrust media. Movie halls have slide shows as also video advertising, which are limited to the audience who are in a way captive and thus forced to see the advertisements.

A rough estimate of media usage is as follows:

1. Print, including newspapers and magazines—30 per cent
2. Television—40 per cent
3. Radio—7 per cent
4. POP and outdoor—3 per cent
5. Direct mail—14 per cent
6. Miscellaneous—6 per cent

The first three—print, radio and TV—are called *above the line media* while the others are called *below the line media*, the distinguishing factor being how the agency gets paid for the use of the media. In case of the above the line media, the media pays the advertisings agency a commission of 15 per cent. For below the line media, the agency bills the advertiser with a mark-up on the media bills, which again is usually 15 per cent.

Each member of the media makes claim of their usage, readership or viewership to woo the advertising campaigns. While for the print media in India, ABC, an independent body, publishes the exact print copies giving its coverage and penetration in the segment, for TV, the TRPs indicate the popularity of a particular TV channel and its individual programmes.

There are other media available now as follow:

1. Videotapes with movies: The number of movies-on-tape hired each year is increasing each year. With the advent of video disks they will too form a new media in India.
2. Advertisements on computer software discs.
3. Internet has emerged as a major advertising media worldwide because of the following reasons:
   - Coverage on the web is worldwide.
   - Availability of huge amounts of information on the internet.

- Entertainment sites like chat rooms.
- Creativity is boundless, with little or no censorship so far.
- Live demonstrations with audio and video clips makes it really interesting.
- Interactivity of the media as it takes the customer from information search stage to buying action with a few clicks of the mouse (and with the help of credit cards!).

The possibilities of new media emerging are immense and advertisers look keenly for developments in the area.

Product Positioning

There are several cars in the Indian market. From the low-cost Maruti 800 to Honda City, from Fiat Uno to BMW. What type of people buy these cars? People buy cars not just for going from one place to another; they also project their lifestyle through their cars. Car marketers put their cars in the slot meant for specific groups of people. BMWs are positioned for the top bracket of customers, while Maruti is targeted at the middle-income group.

Chocolates, ice creams and cheese may be your favourite things to eat and then you would have the brands preferred by you. The mental picture of a product and its brand in your mind is the result of the advertisements you watch and the product quality. As marketers and advertisers how do you gain a particular position? It is the sum total of the quality, price and advertising effort which goes into the product. The marketer therefore attempts product positioning, but actually it is the market that places a product in its position.

Microsoft has got their product Windows positioned at the top by sheer force of heavy advertisement and consistent quality. Indian car market leaders Maruti (in terms of the volume of business) would like their customers to believe that their cars offer greater value for money. Followers like Fiat, Daewoo and Santro would have the customers acknowledge that their cars are as good if not better than Maruti.

For product positioning the following steps need to be taken:

1. Get the real picture of your product in comparison to the competition. It is better to do a SWOT analysis of the products in the market including yours without any bias.
2. Select the market segment carefully.
3. Understand the consumer's need, the benefits he seeks to get from the product. It will help in making the advertisements in tune with the consumer's thought process.
4. Check the competitive position.
5. State your product's position.

ADVERTISING BUDGET

As mentioned earlier, the agency gets a brief from the client or the advertiser. Among other information, the brief contains the client's budget, which has been earmarked for spending on advertising. It therefore becomes the job of the agency to prepare the advertising campaign keeping in view the allocated budget.

Several times the agency, however, finds that the budget is not exactly adequate for doing justice to the objective/s of the advertisement. If the difference is minor, the agency can persuade, in the interest of the campaign's success, the client to revise the budget upwards. In case of major differences it is necessary that the agency be prepared to defend the extra expenditure on advertising they want the client to incur. Major expenditure in the campaign is required depending on the media used. In case of below the line media, the agency adds a percentage on money spent, usually 15 per cent towards their cost coverage and profit.

The methods used in deciding the advertising budget are:

1. International laws on advertising taxation.
2. Launch of the product advertising.
3. Main competitors' budgets.
4. Based on the firm's objectives for advertising.
5. Historical sales method.
6. Task based.
7. Arbitrary method.
8. Criterion of affordability.
9. Top drawer.

Let us discuss these methods in detail.

PRODUCT LAUNCHES

When firms bring out new products in the market, they have to achieve the following for a successful launch of the product:

1. Create product awareness among the target market segment.
2. Provide knowledge about the availability of the product.
3. Make the consumer understand the main benefits provided by the product.
4. Provide the consumer knowledge about the service available for the product.
5. Provide knowledge about multiple usage of the product if relevant.
6. Find peripheral segments for the product.

Simply put, the product can never be purchased unless the customers are in the know of the same. For the cottage industry, when production levels are low, word-of-mouth publicity helps in making the product known to prospective customers. Word-of-mouth publicity is an effective form of making people aware of the product and it happens without any apparent effort on the part of the marketer. And since it is not paid for, it does not fall in the category of advertising.

Product launches, therefore, require concentrated advertising effort, which increase the budget manifold. However, depending on the product, the market segment and the geographic area to be covered, the budget can be suitably made.

During the launch stage of the product, availability of the product for the target segment has to be ensured. Also, if the customer wants to buy the product he must know where he can get it. Imagine a situation where a heavily advertised product is not available in the market. It will surely result in the customer buying a competitive product and when the product does become available the competition would have taken a march over the advertiser. Of course, if product shortage is created as a strategy to generate demand, care should be taken to monitor and watch the situation closely.

Products are purchased for the benefits they offer to the customer. Any advertising has to cover these benefits. Writing the benefit story may take time and space and increase the advertising budget. Considering the importance of the benefit story, especially in the product launch stage, spending the extra rupee would be well worth it.

Most products need to be serviced to be able to give the benefits promised. Hence, the customer must be told about the availability of service facilities. There is a bit of a risk factor in over- or under-budgeting the advertising campaign.

Most FMCG firms spend 7–10 per cent of their sales revenue in advertising. Procter & Gamble spends about 6 per cent of its sales revenue on advertising while Unilever spends 7.5 per cent. Advertising is considered as an investment by firms. The advertising budgets are made after gathering a lot of information like the competitive situation, market growth, PLC and test reports of advertising sample response. Marketing and advertising goals are then framed, which give the geographic and demographic coverage of the market. The advertising budget gives the money value of the advertising plan. The client approves the budget and only after that does any advertising action like release of advertisements in the media take place. Depending of the agency–client relationship, sometimes the agency can book the space in advance. Later on the agency has to maintain control on advertising expenses in line with the approved budget. In case media rates increase, prior approval of the client is needed.

There are several methods used in selecting the advertising budget. The most commonly used are:

1. Sales volume percentage: For example, if the previous years' sales of the firm was Rs 100 million, 5 per cent of it would put the advertising budget at Rs 5 million. The percentage is worked out on the basis of the firm's historical budget, industry norms or on the basis of prevailing market conditions. If the market has started an upward trend then 1 per cent extra could be put for the advertising budget. Following the method without considering market conditions could create major problems. If the firm's market share has been going down, the management may decide to increase the advertising budget. However, if the product is in the decline stage of the PLC, the firm could consider divestment. In such an event, only marginal advertising efforts to help clear the stocks may be enough. On the contrary, even in the decline stage of the PLC, if the firm finds that competitive firms are getting out, they may go for taking the leadership position and pick up the demand left over by competing firms, before finally closing down.
2. Unit of sale: Consumer durable firms like car makers use this method as a variant on sales percentage. While mostly it works out the same as the percentage method, here the firm puts an amount of advertising expense on the car as an add on.
3. Competitive parity method: Information regarding the competition's sales, distribution pattern and advertising must be carefully studied by the firm. It will provide the correlation between the competition's sales and advertising effort. Depending on the firm's strategy of increasing market share, or steadying the share, a decision can be made to have a bigger or smaller budget than the competition. However, instead of reacting to competitive advertising results, firms would do well to be proactive in their approach to marketing by planning their own goals of marketing and then the advertising budget would emerge from the same.

4. Meeting the objectives method: Marketing and advertising people are tuned to the objectives they have made for them to achieve. Working backwards, taking each item on the list of objectives like increasing geographic sales area, increasing market awareness by a certain percentage over the figure obtained from advertising research, they add up the amounts needed for each activity. The advertising team, both of the firm and the agency, best accepts this method.
5. Historical method: In this method, the previous year's advertising budget is adopted with a view that practically no change has taken place in the market and market growth is slow, which does not justify any addition to the budget. As an additional feature to this method, the previous year's budget could be multiplied by a factor to cover increase in media rates.
6. Affordability method: Some firms believe that advertising is perhaps necessary and yet not important enough. They make budgets for all the other expenses like raw material purchase, salary and wages, power and rents and they consider the balance amount in the budget as the advertising budget.
7. Total group budget: In case of a multiple unit organisation, a total amount is decided as the advertising budget and each unit gets a share of this according to their needs. This method helps the group to segregate some amount for corporate group advertising for building the image of the group.
8. Percentage of the anticipated turnover: This method is useful in markets that are dynamic, when the product is in the steep of PCL, as it provides for potential business as well.
9. Elasticity method: This method takes into consideration seasonality of business as also its periodicity. It has been known that some products have better sales every two years or every five years as economy booms appear with certain periodicity. This method takes into view the demand and supply situation and used mainly for industrial products.
10. Ideal campaign: When a firm is in a do or die situation, in order to survive, the firm resorts to a budget which can give them the ideal advertising campaign, resulting in a turnaround for the firm.
11. Market model or operations research: Market research gives the comparative figures of sales as per the advertising effort and a decision is made in accordance with the desired sales. For example:

    - For an advertising budget of Rs 100,000, the sales would be worth Rs 1,500,000.
    - For an advertising budget of Rs 300,000, the sales would be worth Rs 4 million.
    - For an advertising budget of Rs 500,000, the sales would be worth Rs 15 million.

12. Per capita population basis: This method takes the total population to be served and an amount is fixed for each member of the population. It is used in generic products, which are not differentiated and have a large number of common buyers.
13. Flexi-plan: In this method, the budget is not firmed up and is changed as per market demands. In today's world of increasingly severe competition, many firms resort to this technique of budgeting.
14. Composite method: This method takes into consideration several factors in formulating the advertising budget as follows:

    - Firms past sales.
    - Future sales projections.
    - Production capacity.
    - Market environment.
    - Sales problems.

- Efficiency level of sales personnel.
- Seasonality of the market.
- Regional considerations.
- Changing media scenario and changing media impact on the target market segment.
- Market trends and results of advertising and marketing research.

Estimates of advertising expense in some industries as a percentage of their turnover is given next:

1. Cold drinks—10 per cent
2. Cosmetics—11 per cent
3. Games and toys—14 per cent
4. Air courier service—1.5 per cent

Advertising budget should be kept floating in increasing order as long as the incremental sales generate profit which offsets the extra money spent on advertising. It must be remembered that finding a direct relation between extra advertising and additional sales generated is at best a theoretical exercise, as there are numerous other reasons, other then extra advertising which also help in increasing sales, like improved distribution network, better availability, promotional plans.

Most widely used approach to advertising budget is *percentage of sales*, which could result in heavy advertising of well-known, established. The objective and task based budget helps in focusing on more appropriate advertising plans and these help in reaching the objectives to a large extent.

Budget finalisation is normally done by interaction between several members of the firm who put forth their views and justify them. Many times it is the owner of the firm who ultimately prevails over others rendering the exercise useless.

In the past, historical data was a good indicator of amount required for achieving the objectives. With increasing competition, it has become imperative that a close watch is kept on the market and competition.

CREATIVE STRATEGY—ART AND COPY

As can be imagined, with media as diverse as newspaper, magazines, TV, internet and outdoors, an advertising agency has an interesting and tough job creating the advertisement. Usually, the press advertisement consists of art and copy. For written advertisements, art and copy are put on the paper. For TV and radio advertisements, moving pictures and sound are also required.

Advertising and Creativity

Usually the advertisement consists of art and copy. The diversity makes the creative jobs interestingly diverse. And therefore people involved are also mostly different.

In print media, copy can usually be created with unlimited imagination. Using words in different font sizes and designs, numbers, pictures, sketches, cartoons and placing these as per a design creates a large unlimited variety of copy. The size of the advertisement matter or copy can be also as per the media. A long-worded copy is used to fill the page and also to make information about the product available to the prospective customers. A short copy can be used for making a teaser advertisement or to differentiate the advertisement from the usual run of the mill advertisements.

The art work can use pictures, photographs, cartoons, sketches, paintings, with the possibility of placing these at any part of the advertisement, in any size or shape. Logos are the trademark of brands; they are the firm's signatures used in print advertisements. Sometimes, charts, tables and figures are used as well. Depending on the target market segment, stress can be on celebrity endorsers of the product, with their photographs in action. For products for children use of animals is considered useful. Use of colour, open spaces, borders enhances the impact.

For radio or purely audio advertising (it could include pre-recorded cassettes too), the listeners are going to listen and not read or see the advertisement. It becomes important to select the spoken words with care. Besides, the voice of the speakers and singers should suit the lyrics and the product. The music, both the accompanying music and background music need to be selected with care and must be appropriate to the situation. Special effects can create the needed ambience of the advertisment.

Television offers the maximum opportunity for creativity. Being an audio-visual media, it offers maximum attractiveness. As a low-cost means of entertainment, a large number of people get hooked on to TV. In fact, the term couch potato has been coined for people who are addicted to TV.

Television offers the greatest challenge to the creativity of the advertising agency. Not only does it offer the chance to demonstrate the product, it can keep the sustained interest of the viewers. It naturally calls for specialised people who are experts in their fields. This, in turn, has generated numerous jobs like jobs for ad-film producer, film directors, musicians and models. These will be discussed in some detail later in this chapter.

Let us examine creativity from the viewpoint of the customer, whom we are trying to attract. Going by Maslow's hierarchy of needs on one side and the benefits provided by the product, the job of the creative person is to match the main and important needs of the customers in the target segment with the appropriate benefits. For example, the benefit of a lower price for bathing soap (from Rs 60 to Rs 50) would have little impact on the high-income segment. Perhaps, more important would be the skin-care elements of the soap.

Pick up any advertisement of an expensive luxury soap and you will find that the advertiser is talking about bringing beauty and soft skin to the users and only pretty nubile models are chosen to endorse the soap.

The Indian Scene

India is a country rich in culture and cultural diversity with festivals all year round. Advertisers find the festival time well suited to promote some products. During Deepavali, the exchange of gifts is considered essential. Gift manufacturers make special efforts just before Deepavali to advertise their products. Festivities themselves provide various options for catching the attention of the target segment, as has been amply proved by soft drink marketers. Deepavali, Eid, Ganesh Chaturthi see a surge in advertisements. This is because one, on festivals people are on holiday and two, they are in the mood to spend. Firms give annual bonuses to their employees during Deepavali, which helps the buyers to be more flexible with money.

The use of Indian classical music, film and folk music enhances the appeal of radio and TV advertisements. The seven notes of music make Indian music resplendent with myriads of subtle variations and certain market segments are definitely appreciative of the same. Indian theatre dates back to centuries when Banbhat and Kalidas moved the populace with their dramatic artistry. Today, the theatre movement has again come to the fore and with it scriptwriters and other dramatis personae. The element of suspense and surprise, a sure winner in drama is also very successful in advertisements as is humour.

Family planning and other social issues like literacy, health and education all use drama and street plays to their advantage. As people enjoy the play, the social message is put across to the captive audience. As the message is built into the theme, the audience are not likely to walk out of the play. Rural advertising uses street plays effectively to reach the message to the audience.

The task before the copywriter is to make the copy exciting, original, easy to understand, logical in sequence with movement and unified.

The Design Theory

The design concepts as practised in copy writing are as follows:

1. Unity in headline of the advertisement, art, copy, logo and the firm's signatures.
2. Innovation: Variety, as it is said, is the essence of advertising.
3. Balance: The advertisement should look balanced.
4. Rhythm: The advertisement should have a natural flow and have lucidity.
5. Harmony: The advertisement should be pleasing to the reader's eyes.
6. Emphasis: The advertisement should provide stress at the right places.
7. Excitement: The advertisement should make people look up and notice it.
8. It should be eye catching, as most advertisements are not even seen by the target audience.
9. It should arouse curiosity. The use of teaser advertising is a good example.
10. Repetitive: Repetition helps in customer retention and top of the mind recall.
11. Creating wonderment. The advertisement should be awe-inspiring.

It may be of interest at this stage to know how some advertisements get *killed.* We see many advertisements on television and in newspapers and magazines, which are over done. The repetition is too much, rendering them unpalatable to the target audience. There has to be fine balance. There should be the right amount of exposure. Wrong timing can kill any advertisement like nothing else can. Advertising woollen clothes in summer can be a fruitless exercise. Sometimes advertisements are placed in the media even before the product is made available in the market and before the distribution channels have been set up.

If retailing is not properly organised and salesmen are not well-trained then the advertising effort can become useless. If the product is not properly priced it may have a poor effect on sales, the prime objective of advertising. Lower price may be construed as denoting a lower-quality product and a high price could out-price the product in the market in the present competitive age.

With suspected quality of the product and without proper after-sales service, no amount of advertising can help the product. If the media chosen for the target segment is the wrong one, it can derail any good advertisement. Similarly, wrong segmentation of the market will cause heartburns to the advertiser. Esoteric advertising or brash or high flouting messages would not cut any ice with the target segment.

Creativity in advertising calls for an overview of the market, the competitive situation and the firm's strengths and weaknesses. In fact, a SWOT analysis is done which provides lot of ideas for creativity. The following areas need special attention:

1. The objectives laid down for advertising: Advertising is an invaluable aid for informing and persuading the target segment in favour of the product.
2. The target market: The copywriter must have a good knowledge of the segment the marketer is targeting. Many times the segment tells what it wants to read or see. The teenage and young adults targeted by cold drink makers, like Coke and Pepsi put the words in copy as spoken by the teens and young adults. Going to any upwardly mobile college can be a revealing experience as far as the language spoken there is concerned. It hardly sounds like English. A lot of slang words are used in addition to newly-coined words like *funda*.

For getting the right creative message, it is best to find out the most important benefit the product will provide the customers and build the copy around it. An example would help understand how this is done:

1. Maruti Esteem cars are advertised as comfortable family cars.
2. Dove soap is advertised as soap for people who want to have good skin as it takes full care of your skin.
3. Santro cars are advertised as trouble-free, state-of-the-art cars.

Once the main benefit is given as the headline, other smaller benefits can be put in the body copy along with the distinctive features, which help the product deliver the benefits.

The sale of sewing machines has been dipping as women do not have any time to stitch clothes and readymade garments are easily available in the market. If the sewing machine sells it is because the sellers are making an emotional appeal to women that even when you have very little time, if you stitch your own designer clothes and embroider it with the different types of stitches available in the modern machines, you can show off your handiwork to your friends and relatives their with pride.

Thinking and idea generation is the basic function of the human brain. And yet, copywriters find that getting the right idea is far from easy. Copywriters have to follow the idea that they must, like all creative people, live a full life, understanding the variety and subtle nuances of living.

Advertising deals with people's logic and emotions. When a car maker talks about acceleration, braking torque or seating capacity, he is appealing to people's logic or their minds. As the talk transfers to the air-conditioned luxury or magical colours of the car, the appeal is to the heart. In practically all advertisements, the appeal is to the heart and the mind.

Both the human heart and mind are used in the decision-making process. The appeals are made in the following areas:

1. Value for money: This appeal gives the customer the satisfaction of being a careful, clever buyer.
2. Quality appeal transfer is for ego boosting: I buy only the top stuff.
3. Indirect appeals are made by using sponsors and celebrities to endorse the product. Celebrities attract the viewer's attention and also provide help in decision-making. Suiting endorsed by Shah Rukh 'Mayur' Khan gives the viewers a chance of personality transfer: If I wear Mayur Suitings, I will look like Shah Rukh Khan.

4. Who says so: This becomes important in high-value products. Top star Tabu endorses Samsung products giving the impression that not only does she use them, but she also finds them to be to her liking.
5. Most people believe that they are the best in looks, intellect, appearance, and sense of humour. A top model and an ex-Miss India says that she uses L'Oreal products 'because I am worth it'. Ego satisfaction and personality mindset helps in extending user acceptance from the endorser to the customer.
6. An appetising dish does more to make one feel hungry than any amount of verbose writing. When people see the dish they want to eat it even on full stomach. A well-tailored suit on a model has a bigger appeal than sketches of the suit and description of the cloth. Humans have five basic senses—the sense of touch, taste, hearing, seeing and smelling. Advertisers use all these senses to focus the customer's mind on their products.
7. Social cause advertising uses fear and anger to draw the attention of the target audience. The prevention of AIDS through safe sex, small family for family health and welfare, drug de-addiction for life, are some of the areas where the appeal of fear and anger are used to concentrate on the safety and security aspects of Maslow's hierarchy of needs.
8. People making cosmetic products among others use love appeal: Use Axe deodorant and see the effect on the opposite sex.
9. Appeal to the subconscious mind is done subtly in movie halls when some advertisements are flashed on the screen for a fraction of a second barely visible to the theatre-goers. Even then, the effects of such advertisements have been good. Showing a slide for Coke increased its sale in the intermission considerably.
10. Anything done in a highly creative manner will have a positive impact on the customers. Sometimes advertisements with negative concepts like the Onida TV advertisement featuring the devil did wonders for the product.

Creativity can be organised and planned by gathering information about the product, market, competition and the laws.

ART DIRECTION—ELEMENTS OF DESIGN

Art makes the entire advertising eye-catching, full of life. Advertising is made catchy by having a strong and dynamic copy. At other times it is done by using attractive art and graphics. Most of the times, it is a combination of the two, which helps the advertisement become eye-catching. Breath-taking advertisement, an attention-getting campaign, top of the mind recall—all these come with imaginative art and copy and total visuals. Some aspects of how to have good art are discussed next:

Size

It plays a vital role in attracting attention. Depending on the product, headlines can be of strong thick lines to draw people to reading it. Medium-size lettering can make the advertisement look like a news item and this has its own impact. The idea is to highlight in bigger fonts. However, in case of a solitary advertisement on a page perhaps small print could be more useful.

Colour

It sets the entire tone of the campaign, creating or generally going with the mood needed for the acceptance of the product. Persistence of a colour scheme helps in faster and easier brand recognition. Colour advertisements are 20 times more eye-catching and hence tend to pay for the extra costs involved. In international advertising, care should be taken to ensure that the colour scheme matches with the sensibilities of the country for which the advertising campaign is meant. In China, for instance, yellow/gold is associated with purity and religion. In Mexico, yellow is the colour of death.

Line

Straight lines, curves and scratchy lines all have their individual effect. Curves look graceful, while vertical lines provide a standard of decorum, horizontal lines provide peace and dignity. Diagonal lines show strength in the advertisement.

Shape

Shapes can be used effectively to cover the space of the advertisement. Rectangles, squares, oblongs and circles all have their value in catching the consumer's eye. Product cut-outs, mainly used in POP danglers, can also be used to focus the attention of the viewers.

Advertising designs are planned on the basis of proportion, lucidity and balance. The idea is to have eye-catching visuals to attract the viewer's attention. These are shown graphically in Figures 15.7 and 15.8:

Figure 15.7 Balance in Press Advertisements

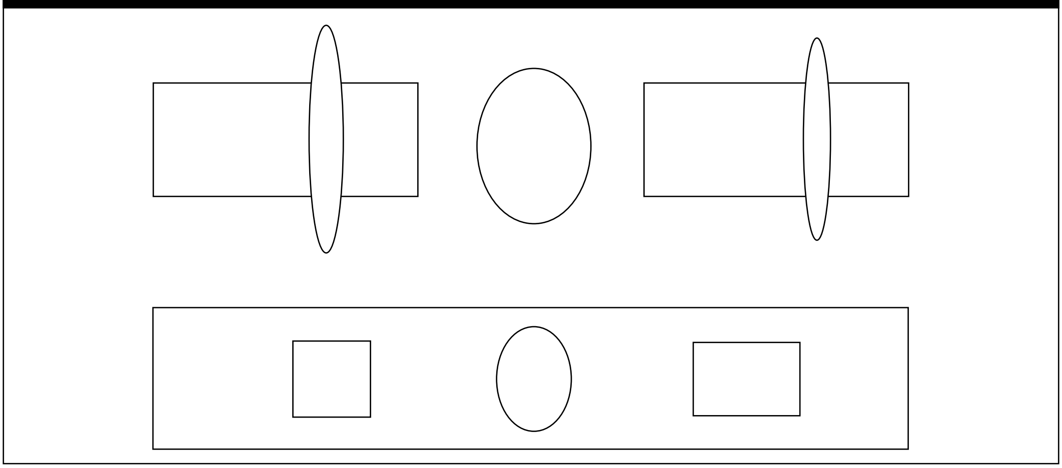
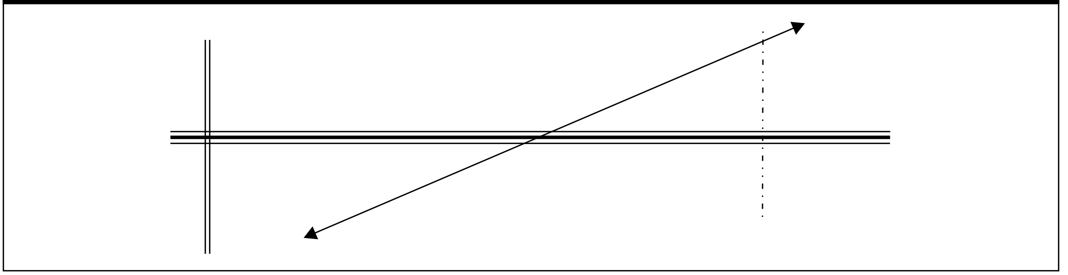


Figure 15.8 Proportion in Press Advertisements



Balance in advertisements comes from imagining an axis around which the advertisement has to be made, or around which it should look like it is moving. Balance gives grace to the advertisement and helps in affecting the viewers through their psyche.

Proportion takes into account the objects shown and their physical shapes and dimensions to make the right impact.

Lucidity or flow comes from the order in which the key elements are put in the advertisement. The advertisement story should come out without any jarring notes to be effective.

The advertisement should look complete in every way and the art and copy should complement each other. For improved recognition the advertisement should lay emphasis on the main points, which is to highlight the benefit story.

Before finalising the advertisement it is necessary to know 'is it exciting enough?', does it arouse the curiosity of the readers, does it carry enough punch?

Print advertisements are designed in a number of ways:

1. Carry a tale, an action and its reaction

   This is used, for example, in shampoo advertisements where everyone can see the results of using that particular shampoo. Pre-use and after use photos, still or in action have a dramatic effect on viewers.

2. Use of the latest news

   Lux toilet soap for instance used the fact that three Indian women won coveted international beauty pageants in the same year to promote their product: Be like the Indian beauty queens, all three in a row, Miss Universe, Miss World and Miss Asia Pacific in the year 2001. Use Lux toilet soap.

3. Teach

   Advertisements can teach the consumer about the benefits of the product. For example, they might teach the consumer that using *besan* for cleaning one's hair is outmoded. They should use the firm's hair rejuvenating shampoo that is already changing the lives and hairstyles of all the consumer's friends.

4. Art dominating advertisements

   You can use minimum copy, may be just a word, or at best a sentence and let the art dominate the advertisement.

5. Copy dominating advertisements

   These advertisements have a lot of information to give, like in industrial product advertising. In copy different font types and sizes can be used for creating the desired effect. For example:

   The Advertising Challenge

   The Advertising Challenge

   The Advertising Challenge

   The Advertising Challenge

The page layout in print advertisements is important. The agencies start by cutting and pasting to create the press advertisement. After discussing the advertising in general let us get to international advertising campaigns.

INTERNATIONAL ADVERTISING

With globalisation Indian firms are trying to succeed in the international markets. For most firms it has become imperative to go overseas to do business as they are finding that international players who have come to India are taking away their market share. It may be a good idea to hit them in their own markets for which Indian firms need to know how to cultivate the international markets. The partial convertibility of the rupee has helped firms earn and keep part of the foreign exchange which they can use for importing raw materials and components. Hence, for most firms foreign markets are crucial for continued growth and profitability.

To market Indian products to foreign buyers you require an understanding of how advertising works in other countries. You need the knowledge of communicating with customers/consumers in the international markets.

Table 15.3 gives the percentage of gross national product spent by countries on advertising to give you an idea of its importance in a nation's economy:

Table 15.3 Advertising Expenditure in Different Countries

Country	*Percentage of GNP*
USA	2.02
Sweden	1.88
The Netherlands	1.77
UK	1.74
Switzerland	1.59
Australia	1.37

India spends about 0.3 per cent of its GNP on advertising.

Next, we discuss the challenges faced and the methods of advertising in different countries.

Russia

With the disappearance of the USSR, Russia has opened up its economy. Now it has two classes, the rich and the poor. The rich class demands quality consumer goods in large numbers. It would be worthwhile to learn the Russian language, its slang and idioms to communicate in the language best understood by the customers. International players have opened their offices in Russia. They advertise in the local press, TV and at the point of purchase (POP). Russia is looking for perishable goods and even old technology products. There is a demand even for second-hand goods.

Methods of advertising in Russia:

1. Advertising must provide exact information about the products.
2. Explain in detail the uses of the products.
3. New kinds of products are needed.
4. Advertising should create tastes and develop needs. A lot of concept selling is required.
5. Products, which show lifestyles, achievements, are a must.

China

South China is quite an advanced market. In Hong Kong and several major cities in this area, outdoor advertising has been used quite effectively for some time now. The reach of TV is increasing and is a major source of communication.

Demonstration of products, how effective they are in reality is what the Chinese customer wants to see before spending money. Television is therefore the most appropriate media where live demonstrations can be given. Testimonials by experts are favoured and can reap rich harvest for the advertisers.

International advertising can also be when national companies go global and advertise worldwide. There are two approaches to global advertising:

1. Global: Where one set of advertisements are used the world over.
2. Multi-domestic: Where advertising campaigns are modified to suit the national sentiments of the countries you are communicating with.

National economies are interdependent and international trade has doubled in each decade. The US imports the following each year:

1. Watches—70 per cent
2. Cameras—60 per cent
3. TVs—45 per cent

You can name several MNC brands available in India today.

The following are the methods of starting international advertising:

1. Selecting an advertising agency: You have the choice of an Indian agency, Indian agency with foreign collaboration, and foreign agency with offices in India.

2. Many countries such as Canada go by a nationalistic approach and in such countries it may be a good idea to appoint a local agency. Local agencies provide the goodwill of the target market.
3. If there is no binding then select the best agency.

The following are some of the international agencies in India:

1. J. Walter Thompson
2. Dentsu Japan
3. MaCann Erickson
4. Young and Rubicon
5. Ogilvy & Mather
6. Ted Bates
7. SSC&B Lintas
8. BBDO
9. Leo Burnett & Foote
10. Cone and Belding

What message should be used in international advertising?

1. Indian message.
2. Ethnic with local colour, with words phrases used in a particular culture.
3. In large, multi-cultural countries, a common message appealing to the masses can be used.
4. Language barrier can be overcome by using a local agency.
5. Standard appeals like for Coke, Mercedes, Levi jeans offer recognition anywhere in the world.

These have advantages of cost, repeat value. At best you can change the models and use local faces. International advertisements help people associate themselves with the lifestyles of the rich and progressive. Such advertisements have easier coordination, campaign preparation is simpler and international travellers recognise the product anywhere in the world.

SALES PROMOTION

The business environment the world over has undergone sea changes in the last decade, more so because of the political upheavals, like the disintegration of the USSR, opening up of China, turmoil in the Far East economies. Let us understand the business environment, as it exists in India today:

1. Severe international competition.
2. Large middle and upper-middle consumer class.
3. Changes in money supply and interest rates.

These factors have lead to an era of continuous sales promotion. It is therefore important to learn what sales promotion is and how it can be made effective. With the number of products in each group increasing, the customer is the main beneficiary. However, he is also a bit confused as each advertiser is telling the benefit story to him. The need to give that extra benefit to clinch the order leads to promotion.

Consumers need extra stimulus to buy the product. The dealers or retailers need that extra benefit to stock and push the product. These promotional activities *must* be advertised to be of any value in increasing market share. In sales promotion, the marketers are giving some thing extra. This is in lieu of price reduction. Price reduction, unlike promotion, gets to be an extended expense while promotional expense can be withdrawn any time you feel you have achieved your objectives.

Sales promotion provides extra incentive, an offer of direct inducements that enhances the basic value of a product for a limited time to stimulate immediate distributor commitment, sales force effectiveness and consumer purchasing. Coke and Pepsi advertise in order to promote sales as well as to encourage the retail trade to keep their products.

Customer promotion is achieved by the following:

1. Test our new product or re-buy. Added incentives make people give new products a try.
2. Be loyal to us, we are there to look after you through our promotional plans.
3. Buy more. The Pepsi tagline is 'yeh dil mange more'—the heart wants more.
4. Buy our entire range. For this purpose sometimes products are bundled together.

Promotion increases sales immediately. It helps in advertising and other marketing efforts like personal selling. It is very important to advertise the promotions so that the customer gets to know about it. Lack of advertising for the target market will render the promotion campaign unrewarding and the objectives will not be met.

Trade promotion helps in the following manner:

1. Gets better distributors.
2. Better shelf space at the retail stores.
3. Superior merchandising.
4. Increases stocks and pushes sales.
5. Trains the sales personnel of the retailers.
6. Better product knowledge (as a spin off).
7. Improvement in dealer responses in the future.

Sales promotion takes up to 70 per cent of the total marketing budget and hence it is a major factor that needs constant nurturing. The main reasons for the shift towards promotion are as follows:

1. Immediate results: With the focus on meeting target sales promotion provides quick response techniques.
2. Measuring effectiveness: As the results are quick to achieve, promotional plans results can be seen early.
3. Retailers have acquired a status they never had, as through computerised information base they know their customers, their buying powers and habits best. Therefore, promotion plans with retailers at the hub can be most effective.
4. Increased competition and the plethora of products make you vie for the customer's money. Advertising may not provide the motivation needed for making customers buy your products.
5. Buyer's loyalty is limited and can be enhanced with active participation of the retailers. Since your competitors are doing exactly the same, you have to be on the constant look out for better and more rewarding promotional plans both for your customers and your retailers.

There are various ways of product promotion:

1. Buy one get one free
2. Buy now, pay later
3. Take a free sample with each purchase of our other product you just purchased

Many firms offer discount coupons as incentive to buy at a lower price. When the customer goes to redeem the coupon a good salesman can sell a lot of the company products. At least the customer would have tried your product and he may like it so much that he buys it again.

Special low-cost packs are offered as promotion to encourage trial. Similarly, some firms give money-back offers where in the unlikely event of the customer not liking the product he can get his money-back. Experience shows that hardly anyone ever comes to return a product for cash, unless the product is defective. Contests are also used as sales promotions. Colgate offers, millions of rupees, besides other goodies like computers as contest gifts. Hotels and airlines offer high usage discounts and free tickets for frequent flyers as part of their promotion plans.

Trade promotion plans offer the following to the retailers:

1. Display incentives for better merchandising and shelf use.
2. Short-term discounts for inventory control and sales push.
3. Turnover discounts are given for achieving sales targets.
4. Assistance in running sales contests among the retailers' salespersons.
5. Cooperative advertising with the retailers where the advertising expense is shared on a mutually agreed basis.

Sales promotion is an offer of direct money saving to the customer without diluting the product's brand equity (as can happen in the case of price reductions). Consumer sales promotion encourages new product sales, increase usage of existing products, helps sales of the entire range of products and adds to selling efforts. Retail promotion helps in building inventories with the distribution network and indirectly acts as a sales push in the market as no one can keep large inventories for long.

Depending on the product and trade practices, firms send dealers on trips to foreign countries on achieving the targets. Some firms offer cars and other consumer goods as incentives to achieve the sales as planned. Promotion programmes are known to increase sales and market share, which lasts as long as the competition does not retaliate. Hence, it is wise to closely observe the competition's activities and to be proactive rather than react to losing situations.

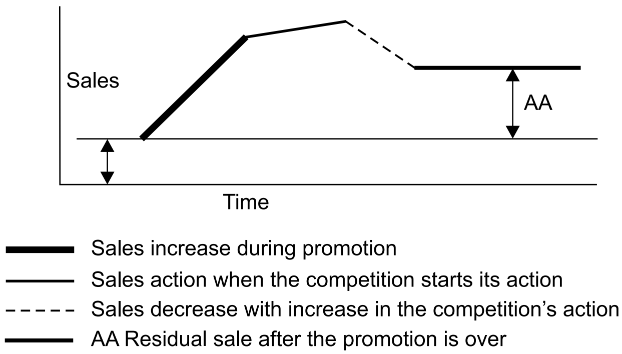
Ideally the sales graph for sales promotion should be as given in Figure 15.9.

As can be seen, the firm has gained quite a substantial amount of market share (additional sales AA) but do not forget that this is the ideal situation. The competition is always there to counter the firm's moves and hence the need for continuity in promotion plans!

As can be seen, sales promotion is a short-term plan to increase sales. It can be used for the following reasons:

1. Loss of sales due to production problems.
2. New product or variant launches.
3. To beat the competitor's plans.
4. Increase in production capacity.

Figure 15.9 Sales Graph Showing Changes in Sales due to Promotion



Generally, a combination approach is required, that of consumer promotion and dealers promotion plan. However, if there is only consumer promotion it increases the sales and profit of the dealer too and hence the channel members welcome it.

One major reason for the failure of promotion plans is the dishonesty of dealers, who do not give the extra benefit to the consumer and pocket it themselves. Many of us have purchased a cake of soap, which was to be given as free gift with a bottle of shampoo, as written on the soap package. While most dealers and retailers play the game honestly as they know that ultimately the advantage is going to be theirs because of increased sales and profits, firms should be careful in selecting dealers and retailers in the initial stage itself.

A major area of channel/distribution network promotion is training of its personnel. Automobile firms like Maruti and Daewoo send their dealer technicians to their respective headquarters in Japan or Korea for training because they are aware that the only competitive advantage that can really sustain and cannot be copied is the excellence of service provided to their customers. In the area of white goods, some firms encourage dealers to keep a few trained servicemen to attend to minor complaints. The failure rate or mean time between failures (MTBF) really defines the quality of a product and differentiates it from other products in its range.

Finally, firms can take their pick of the variety of sales promotion plans available or think of some new innovative promotion techniques. However, they must always remain proactive to the market needs, situations and environment changes.

MARKETING, ADVERTISING AND ECONOMY

A lot of laymen wonder about marketing and its subtleties in the macroeconomic state of the country. Let us discuss a few cases on this issue to understand it a little better. The marketing plans discussed next have been chosen as representative of different classes. These will provide an insight to the readers into the world of marketing.

1. Product launch—cellphones.

2. Maintain market share—Pepsi.
3. Create retail business—Nanz chain of retail stores.
4. Provide salespersons with business opportunities—FMCG products, Hindustan Unilever.
5. Public interest advertising—pollution control on Delhi roads.

Product Launch

A few years ago, Airtel introduced a then unknown product—cellphones to the Delhi public. There were banners across several main roads announcing: 'there is something new in the air—Airtel'. A lot of speculation went on among the elite of the town and most persons were intrigued by the advertisement. Many thought it was a new TV channel. Others opined that it was a new airline. The debate went on till it was resolved with the launch of Airtel cellphone service in Delhi. It became the new status symbol for the people of Delhi. People in Delhi have always been status conscious due to the composition of the population, which includes bureaucrats, industrialists, media personalities, famous doctors, lawyers and diplomats. Later, when competition caught up with it, Airtel started expanding its product range, refining the services provided and making attractive price packages to stay ahead of its competitors.

Airtel took the following points into account:

1. Airtel provides tremendous opportunities to modern business. It makes communication possible as and when the need arises. Pagers, the predecessors of mobiles, allowed for only one-way communication and that too by means of text on a limited screen.
2. A proven technology in Europe, the GSM, which ensured upgradation of technology as it was happening any where in the world.
3. Geographic coverage of large cities like Delhi and Mumbai. With roaming facility today you can be anywhere in the world and use the same cellphone to communicate with your friends and business associates around the world.
4. Internet on cellphones, the facility to send and receive text messages and conferencing facilities has made the cellphone a veritable boon to the business executive of today.

Market Share

Pepsi realised that unless it kept the product visibility on a permanent pedestal and kept the product on the top of the mind recall, their severest competitor, Coke, would steal their share in no time. With this realisation, the now famous Pepsi–Coke advertising war started. Both the firms leave no opportunity to upstage the other. India is a land of celebrations round the year. Be it a religious festival or a social one, people are out on the streets with unmatched gusto.

Regional festivals like Ganpati Mahotsav in Maharashtra, Durga Pooja in Bengal, Pongal in the south and Baisakhi in Punjab are times to celebrate and cold drinks are sure to be a part of the gala. During such festivities TV viewers are virtually bombarded by the advertising campaigns of the cold drink manufacturers.

Create Retail Business

Retail chains are taking over the retail business from individual retailers as with bulk buying they can provide lower prices, have better merchandising, use marketing and retailing expertise and provide real value for money to their customers. They face the following problems, which they try to answer through their marketing campaigns:

1. Small individual retailers are more aware of the needs, mindsets and buying behaviour and patterns of the local customers.
2. Home delivery and credit sale are better managed by small retailer.
3. With lower per product inventory, loss on account of a product not selling is less.
4. Faster inventory turnaround means better profits.

Retail store chains have the following advantages:

1. Uniformly good quality of products.
2. Large variety of products.
3. Multiple brands of the same product giving the buyer the right to choose.
4. Hygienic conditions in the sales rooms.
5. Play areas for children accompanying the buyers for ease in buying.
6. In-house restaurant to refresh the shoppers.

Since retail stores are spread in different parts of a town, the chain uses local media like local cinema, press, handbills and billboards to ensure the buyer’s top of the mind recall.

Providing Salespersons with Sales Opportunities

Providing salespersons with sales opportunities is done through a variety of advertising campaigns. The most effective ones are from FMCG firms. Retail traffic increases for a new product in direct proportion to its awareness and top of the mind recall. For example, if just a few buyers (say two or three in a day) ask for a new brand, the salesman will sell them any reputed brand which is in stock, instead. However, if 20 or 30 people ask for the product, the retailer will be forced to stock the product else he will lose customers to competing stores. We can see advertising develops sales pull, as against inventories, which provide sales push through inventory pressure.

In the case of industrial product/business-to-business sales, advertising helps in making the buyer know about the product and mainly pre-sell the products to the firm. In other words, it helps in image building of the firm. In turn, the salespersons of the firm get an easy access to people in the purchase department of the firm. It helps the salesman to get a foot in the door.

Creating Social Awareness

Advertising helps in building public awareness towards social issues. We have all seen advertisements that propagate cleanliness, pollution control, small family norms and raise awareness about the ill effects of dowry and child marriages. Such advertisements help in building consciousness among the public towards the cause and this in turn proves effective in eradicating the problem.

Besides this, advertising, which is a marketing mix factor, helps in the following areas in the economic sphere:

1. Advertising removes the pressures of governmental/political or business control of the media, both print and electronic. In other words, since the media is not dependent financially on the government, political bigwigs and industrialists, it can be bold in its editorial content and hence can play its rightful role as the watchdog of institutions like the bureaucracy, judiciary, legislature and business.
2. Advertising helps build a fine-tuned management system, which delivers what it promises through its advertisements. It helps in streamlining processes and procedures for both management and workers for optimising results.
3. Brand equity helps in improving product quality differentiating it from other similar products, which in turn benefits the buyers who get the right product at the right price.
4. Advertising tends to reduce distribution costs in certain products, which are sold on their brand name only, without any need for further salesmanship. Personal selling becomes a lot easier as the buyer is already aware of the product and needs only to reinforce his positive ideas about the product.
5. Advertising has emerged as a major source of information about the product, its price, availability and other terms of business associated with the product like leasing options and detailed specifications.
6. Advertising helps in research and development (R&D) efforts, as the firms are sure that with the help of advertising they will be able to launch new products developed by their R&D.
7. Building brand equity or improving a firm's image helps firms in pricing the products higher than the competition, as buyers get a mental picture of the quality of the product, which once established through usage of the product dictates repeat buys of the same product.
8. Advertising gives customers vital information for free which helps them in correct decision-making most of the times.
9. Advertisement helps in creating entry barriers for new brands as most customers become brand loyal and this leaves little place for a newcomer. However, this statement holds less meaning as for certain products like FMCGs, brand shift is most common as can be seen from the new brands introduced in the market. Hence, entry barrier theory is mostly a theory only with not much relevance to reality.
10. As far as prices are concerned, advertising help build sales, increases revenues and therefore can, in fact, be instrumental in price reduction if the firm wants to do it. Since price cuts are equated to product quality, firms remain apprehensive in taking this measure, as they might just lose their market.
11. Advertising works as a sentinel of public conscience too. With the advent of colour TV, advertising is affecting the viewers much more than ever before. It can be a lot more persuasive now. Buyers do have increasing choices, but the responsibility of proper and correct information lies squarely with the advertisers.

MARKETING AND SOCIETY

Marketing, it is alleged, makes people buy extra things, which they may never need. However, we can logically see that people normally make a budget of how much they want to spend on any particular product. The purchase decision is taken after a lot of investigations regarding alternates available, their quality, after-sales service and price and, depending on product's value to the buyer, the process becomes time consuming and cumbersome. However, advertising gives the buyers information, which is verifiable and which helps in making purchase decisions. We can infer that advertising helps in improving the product quality, buyer's value for money and, as a consequence, helps develop buyer's tastes for products of a good standard.

The marketing of Health care products and feminine hygiene products improve the general awareness of buyers about health issues. Hence, the quality of such products, which may be vital to the very well-being of human beings, is of paramount importance. Advertisements at a point are the only things buyers see before they even think of buying the product. Therefore the relative importance of advertisements emerges from its dynamic effect on, at times, a gullible public.

On a different plane, products with bad advertising can take away even the good points of a product. The quality of the advertisement often determines the product quality in the buyer's mind. Even mediocre products like Texla TV survived the onslaught of international brands as they had as a policy positioned their product in an upscale market. It still has some share in the market, while some of its better-known contemporaries have bitten the dust.

There are some products, which are banned from being advertised like liquor, cigarettes, contraband goods and drugs. At times there are lacunae in the law, which debars advertising in one particular media although the product is allowed to be advertised in other media. Such imbalances create chaos in the buyer's minds and there should be uniformity on an international level about this issue.

Society is at times, inundated by advertising blitz, which become counterproductive. The readers reject magazines full of advertising and little else. In the same way, if the same advertisement is aired repeatedly on TV and radio, it loses its appeal and turns objectionable even if it is a good advertisement. While becoming eyesores to viewers, such advertisements show the shallowness of the creative depth of the agency concerned.

Advertising agencies have often been accused of exploiting the female form to enhance advertising appeal. Whether the product is a car tyre, health food, a lathe machine or even a screwdriver, it is considered useful to show a pretty girl who is in no remote way connected to the product in its advertisement. Despite protests from the socially conscious, such usage is on the increase. The motto seems to be: give the viewers what they want to see. Censorship is conspicuous by its absence. Advertising associations have been trying to set up a self-censorship body within the advertising network without any real success. Now, the changing societal norms, its permissiveness are reflected in advertisements. The question therefore is what leads to the present situation, uncensored advertisements or a permissive society. It is definitely the need of the day to look at the present advertising scene from this point of view at the earliest.

Advertising creates value systems as people buy advertised products, which establishes a particular lifestyle for the users of the products. Such products are, at times, purchased only to become a member of that particular elite set. This tendency is more visible among young people and the newly rich. On the other hand, advertisements help buyers realise their lifestyle through the information provided in the advertisements. A person living near the sea may want to buy a boat. Seeing the advertisement of a speedboat he may go for it as it is the status symbol of the elite. Product positioning and choice of media for the target market segment are all based on getting the right person to see or have the opportunity to see the advertisement. Hence it can be surmised that advertisement plays a useful role in moulding the upwardly-mobile population in the right groove.

Society revolves around certain norms like what are the desirable tangible products for any set of people. Going beyond the product list meant for their set (which remains unwritten) people get tempted to buy things they can hardly afford. The element of materialism is born out of this desire. It was once said that all good things in life are for free. Now in the twenty-first century, drinking water is being purchased (mineral water), air conditioners are purchased to provide the cool air we breathe. Even simple products like salt, sugar and flour are branded to provide mental satisfaction about the quality of the product, which were hitherto being sold as generic products. Marketing has therefore provided the consumers with options but, according to anti-materialistic group, buy they must.

Advertising, when it takes the role of puffery, becomes misleading and hence harmful to buyers. Puffery means exaggerations about the benefits of the product, which give a wrong picture to the buyers. The temptation to use superlatives to describe an ordinary product is possibly so overwhelming that we see many advertisements using puffery to attract customers. It should be remembered that such advertisements are like a bucket with a hole and they do not carry any water in them.

When you meet really rich people, you find that they are not given to materialism. Many affluent Indians can be seen wearing the traditional dhoti-kurta as often as they wear their jeans and tee-shirts.

Leisure-time activities like trekking, jogging, camping, mountain climbing and other outdoor sports and health-improving products like health foods, diet products, personal gyms take up big advertising space and it helps in furthering the awareness of such activities and products, rendering valuable service to society.

Advertising can now be redefined in 11A's as follows:

1. Advertising deals with providing correct information to the target market segment/s.
2. Availability of products is confirmed.
3. Awareness of the product benefits is highlighted.
4. Assessment of product utility for the consumer.
5. Adherent of the product—it makes people loyal to a brand.
6. Attitude change—if the buyers have a negative attitude towards your product it can be moulded in your favour through advertising.
7. Acceptance of the product by the buyers is through usage and trial.
8. Affordability gives the value for money picture to the customers to justify high prices.
9. Accessibility—advertisements tell the buyers how and where they can buy the product.
10. Aesthetics help in bringing out the best creativity to attract attention to the product.
11. Adventure adds to the dynamics of advertising campaigns and calls for an innovative spirit in the creative team.

Advertising lets the press remain free from outside controls, as it earns enough from advertisements. It means an independent editorial policy can be maintained adding credibility to the press. It remains a moot debatable point whether advertisements can control press with huge revenues available to press through advertisements.

Advertising makes consumers use more of the product. For example, Kodak says, 'Take more pictures'; the Hero Honda motorcycles advertisement says, 'Fill it, shut it, forget it'; many soap companies advertise offers of buy two get one free.

Increasing business can also be done to make the customer aware of the different uses of a product. Baking soda can be used to freshen refrigerators by removing odours from its contents. Advertising this aspect improved the sales of baking soda to a large extent while it provided customers with a service unheard of by them. Orange juice was used only as a breakfast drink. Advertising orange juice as a product that could keep the consumer fresh all day long helped in increasing its sales considerably.

The third alternative for increasing sales is to add new customers for the product. An airline started advertising in the 1950s and 1960s that if your employee is travelling by train you are losing precious time, which converted into money was a big loss to the firm. While the airlines may not find the approach very successful, small car sellers are asking motorcycle users to change to more comfortable and weatherproof small cars. It can be seen that such advertisements try to look like they are providing a social service too.

Advertising should help firms achieve economies of scale in manufacturing, bulk purchase, cost effectiveness so that they can offer better benefits, bonuses to the employees who are part of society.

THE ADVERTISING CAMPAIGN: HOW DOES IT WORK?

In order to accurately assess the customer perception of the service provided by Airtel in Madhya Pradesh, Airtel conducts constant information gathering exercises to not only ensure customers acceptance of the service but also for reinforcing the effectiveness of their advertising campaign.

With the virtual monopoly of the Maruti in the small car segment, Hyundai had a hard time trying to focus the customer's attention on their Santro, which was also positioned in the small car segment. They used the super star of the Indian screen, Shah Rukh Khan, to position their car in the right slot which paid them dividends in the form of market share in excess of their own expectations. In fact, they got a market share greater than Matiz (the small car from the Daewoo group), although, Daewoo had a distinct advantage of a longer presence in India with their large car, Ceilo.

Thums Up, the cola drink, faces challenge from both Coke and Pepsi. To gain market share they are repositioning the product as an adult product taking into account that both Coke and Pepsi have been targeting the youth market. In the Thums up advertisement, the other super star of Indian movies, Salman Khan, asks the audience, 'are you ready for the growing up challenge'.

Life Insurance Corporation of India was never into big time advertising. It was only after the setting up of a commission to look into the privatisation of the insurance sector that they started their advertising campaign in a big way. They also upgraded their product, made it more user friendly and improved their response time. All of these came about with big advertising splashes to keep the customers informed and motivated to buy their products.

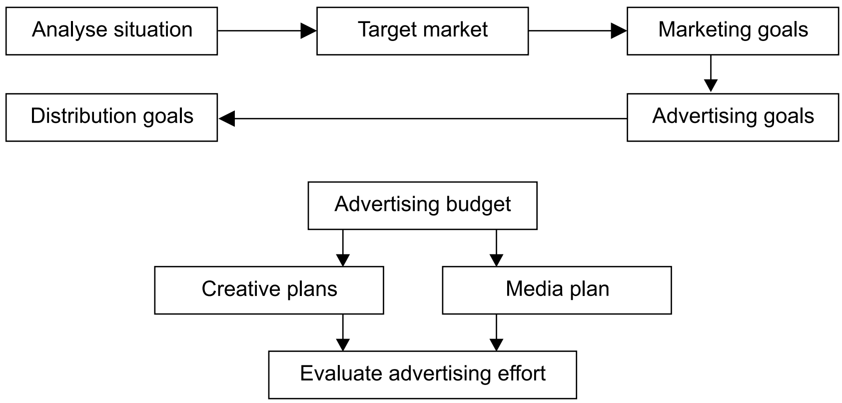
The book will be discussing different types of advertising including consumer advertising, business advertising, industrial advertising, trade advertising, professional advertising and social advertising. Besides national-level advertising, the book also discusses international advertising as well.

The marketing planning process can be put graphically as shown in Figure 15.10.

Around the world, advertising reaches millions of people in their homes, workplace and shops where they buy. Based on the product and the advertising budget, media selection takes place for optimised results with the target segment. Today's marketing managers want to reach out to the customers at places selected by the customers to facilitate sale of their product, rather purchase of the product by the customers. Hence customer orientation of firms is complete and firms have to match up their efforts in production, finance and human resources to reap the benefits of the customer-first concept.

Change, it is said, is the only constant in the world. Hence, even advertising is evolving all the time. The advertising evolution is likely to become an advertising revolution in the wake of the internet and e-commerce. The media blitz of the twenty-first century has surpassed all imaginable concepts

Figure 15.10 Marketing Plan Process



and so have the creativity standards. Technology has been at the helm of these changes as will be described in the following chapters.

Practice is what makes one perfect. A lot of local advertising goes on, including cooperative advertising, trade advertising, point of purchase advertising, business advertising and direct mail advertising. They have low budgets and their needs are different including media selection. These are, in effect, part of the entire exercise of advertising, but need special emphasis due to their special nature.

Advertising can be classified as generic and specific. In generic advertising, effort is made to generate business for the entire product range including all the brands, while specific advertising is done to promote sales of a particular brand only.

Examples of generic advertising are as follows:

1. Advertisements prompting people to drink more milk.
2. Advertisements prompting people to eat more eggs.
3. Advertisements prompting people to buy diamonds to please their wives (sponsored by de Beers).

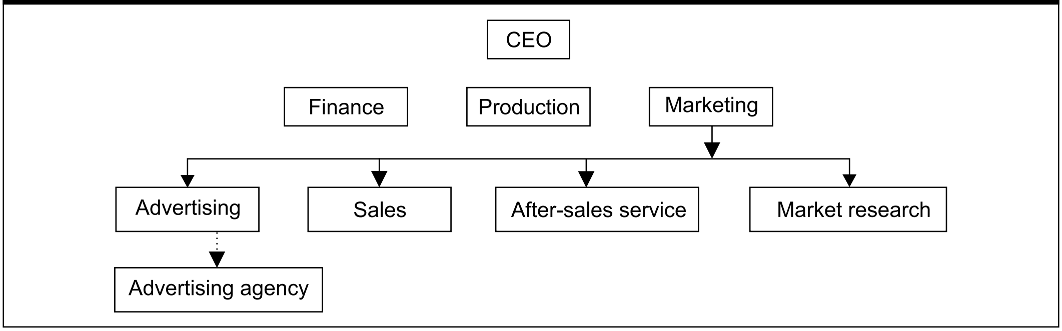
In social cause advertising it could be:

1. Exercise your right to vote.
2. Keep your city clean.
3. Plant one tree each year.
4. Each one, teach one.
5. Anti-dowry campaigns.
6. Get your vehicle checked for polluting emissions.
7. Do not change lanes while driving.
8. Pay your taxes in time and do not evade taxes.

For specific products, advertising brings in business due to advertising pull. Attractive advertisements lead to top of the mind recall which gets translated to sales.

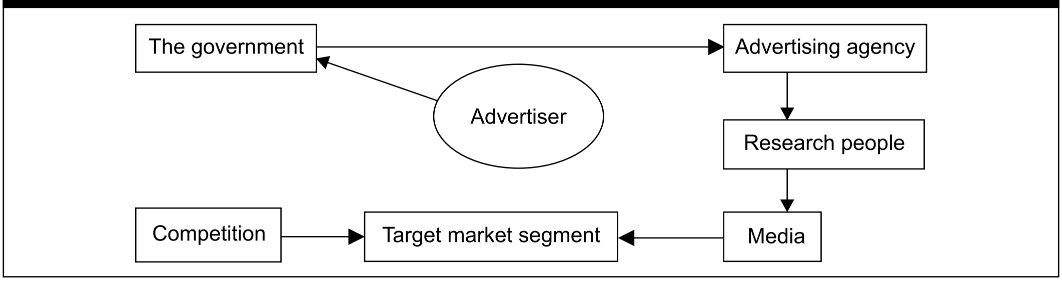
Advertising is a marketing function in a typical firm and relates to the other areas as shown in Figure 15.11:

Figure 15.11 The Functional Areas of a Company



The major organisations concerned with advertising are shown in Figure 15.12:

Figure 15.12 Organisations in the Advertising Ambit



The government lays down laws concerning advertising. In most countries, advertisements concerning liquor and drugs are banned. In its own right, the government is also an advertiser.

The advertiser is the hub of all advertising activities as he is the one directly connected with the results of the advertisement. Business firms have to advertise goods to improve their brand image, which in turn helps them in increasing sales in a competitive situation. Public service organisations also advertise to educate people about improving the quality of life for the citizens of the country. The following 16 industries are the top advertisers in any country:

1. Airlines
2. Appliances, TV and radio
3. Cars
4. Medicines
5. Food

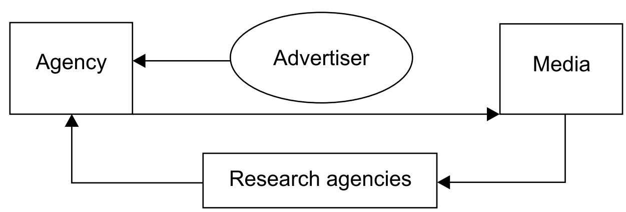
6. Candy/chocolates
7. Colas
8. Toiletries
9. Tobacco
10. Dresses
11. White goods
12. Cellphones
13. Scooters and motorcycles
14. Films
15. Watches
16. Service industry, like hotels

The government as an advertiser has not been counted in the list. They are big advertisers for purchasing, selling and recruitments. Firms selling liquor, who are not allowed to advertise in most countries, resort to using indirect methods like sponsoring sports events, advertising mineral water belonging to the same brand.

Research groups are constantly working on different market segments for a variety of products for understanding consumer behaviour, lifestyle, mindsets and at times have readymade answers to questions posed by the advertisers in this regards. Their role is of providing assistance to the agencies.

The role of different organisations which assist the advertisers can be seen in the block diagram given in Figure 15.13:

Figure 15.13 Advertising and Related Agencies



As can be seen, the agency plays the role of a coordinator between the advertiser and the media. Research agencies conduct continuous research for understanding the effectiveness of different media as also the mindsets of the target market segment.

Advertising has become an important discipline and plenty of literature is available on the different aspects of advertising. There are books, magazines, reports and videos dealing with the subject, some of them dating back to the turn of the twentieth century. Advertising has been seen from the following viewpoints:

1. Psychological
2. Social
3. Philosophical
4. Economics
5. Management

The management perspective of marketing confirms the supremacy of market share and brand equity in every business. However, from the last decade of twentieth century, firms are becoming more and more aware of their responsibilities towards their stakeholders. The firm survives because of and for the stakeholders. The stakeholders of a firm are:

1. Personnel—workers and management
2. Buyers
3. Suppliers
4. Financial institutions
5. Government
6. Trade bodies
7. Residents living in the neighbourhood of the company
8. Fauna and flora which can get affected by polluting industries

In order to keep a balance between the interests of these groups, which at times can be conflicting too, firms need to be transparent in all their dealings. This calls for an extensive spread of information through advertising.

Factors connected to advertising are shown in Figure 15.14:

Figure 15.14 Advertising Factors

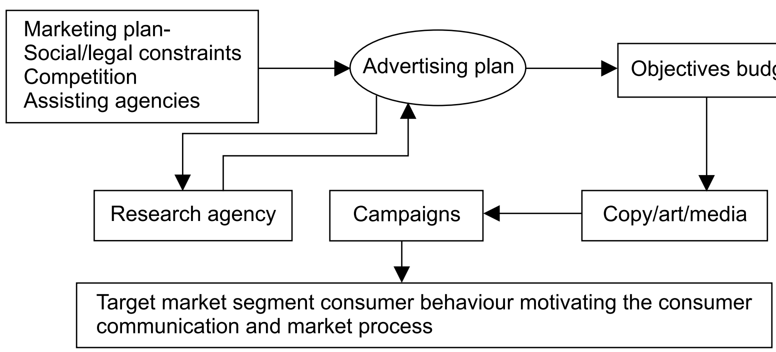


Figure 15.14 is self-explanatory. Marketing plans are made keeping in view the social and legal constraints, competition and agencies like advertising agency and distribution networks. From these plans advertising plans emerge. After defining the objectives and budget, the creative team works to produce the artwork, which, after the client's acceptance, goes to the media as per the agreed schedule. The media is selected on the basis of the segment being catered to.

In segmenting the market, focus can be kept on concentration of customers in a defined geographic area or more than one group is selected and communication designed to suit the segments. At times going to a smaller segment helps as no competitor may be catering to that segment. In large segments, competition is usually severe with price wars rendering it less attractive.

Smaller segments are useful in product launches when the seller is not too sure of market reaction to the product. Small firms, specialty product firms normally take the route of smaller segments.

Firms opting for large segments need to focus on each sub-segment for planning advertising campaigns because the mindsets, language and motivation may differ significantly for each sub-group. Firms even plan different products to catch the fancy of separate sub-segment. Maruti has its 800 version for the middle class segment while its Esteem covers the upper class segment. Maruti's segmentation goes beyond the middle class and upper class as they have the Gypsy, which caters to the adventurous, and the Omni van, which can be used a as multiuse vehicle.

For time-saving products, working women constitute a major segment of the consumers. A research conducted on whether women should work in office brought mixed responses as summarised in Table 15.4.

Table 15.4 Women at the Workplace

Demographics	*Yes (%)*	*No (%)*
Age under 35	78	22
Age 35 and above	54	46
Education: Graduate	63	37
Undergraduate	60	40
Income Rs 10,000 per month or less	80	20
Income Rs 10,001 and above	45	55
Women are meant to stay at home	55	45
The work place is bad for women	60	40
Man is the boss of the house	80	20
Women's liberation is good	40	60
Media liked by men: TV	38	62
Media liked by women: TV	55	45
Magazines read by men: *India Today*	20	80
Magazines read by women: *India Today*	5	95

Depending on the product you have to advertise to the target segment and the appropriate media has to be chosen to reach the target audience. Please note that Table 15.4 is only a hypothetical example. The most appropriate media is selected on the basis of market segmentation for a product. Market research helps in the right segment selection.

In India, the number of women in the workforce has been on the rise. Population shifts from rural to urban areas is a major factor. Increasing population of teenage children and senior citizens is creating unparalleled business opportunities for some types of products.

While mass media rules the advertising communication, to find the most suitable communication plan for a particular segment, segment de-massification is being done. You pick up one or two representatives of the segment and then find out everything about that person for testing the communication created for that segment. Once the segment is clearly defined the creative task begins.

THE CREATIVE ART

The creative artist has to know how the target audience will view and accept the art of the advertisement. While talking to children, it is important to communicate with them in their mother tongue.

What really affects and stimulates the viewers must be clearly understood. How people acquire preconceived notions about products, which also distorts images of even a well-conceived advertisement, must be well know. This would prevent the wrong message from going to the market.

Consumers need to know about their needs and the products that will best satisfy them in the most cost-effective manner. Do the customers ask their friends, relatives or experts before making purchase decision? How the mindset is formed and the psychology of the consumer has to be understood. The advertiser has to take on the role of a psychologist to be able to give the right input and stimulus for the purpose. The use of prominent persons as endorsers helps in this direction but you have to choose the correct person for endorsing the product.

To convert negative feelings for your product into positive ones needs an all round approach consisting of endorsements by the right people, proper merchandising of the product and point of purchase advertising.

Next, the advertising creativity has to find the actual benefits sought by the customers. Scanning competitive products and their advertisements will give an insight into what significant benefits have been left out by the competition and this will help creative people to chart the proper route taking these benefits into account. The best analysis of competition is done by learning about their 4Ps—product, price, placement and promotion. Table 15.5 gives an idea of what needs to be done.

Table 15.5 Analysis of a Company's Marketing Factors with Competitive Factors

Attributes of your product	*Benefits which the customers will derive from the product*	*Attributes of the first competitor*	*Benefits of the first competitive product*	*Attributes of the second competitor*	*Benefits of the second competitor's products*

Most advertising agencies use this method without sometimes making such a table. (As an example, while the attribute of a shirt could be the use of silk, the benefit, which the wearer would derive, would be an expression of his lifestyle as also the smooth flow of the shirt on the wearer's body.)

It must be remembered that the benefits derived as per the firm's own ideas may not be the same as the customer's ideas. It is best to undertake advertising research to get the right picture to produce result-oriented art.

Analysis of the market for a particular product has to start from proper market segmentation, buyer's profile, competitive strengths and weaknesses. Population shifts, social-cultural changes, lifestyle changes, and income distribution patterns help in understanding the market dynamics better.

The task of market analysis becomes acute when the number of competitors is high and each one of them has distinct advantages in some area or the other. Taking cars into account, we can draw such a graph showing comfort and price as shown in Figure 15.15.

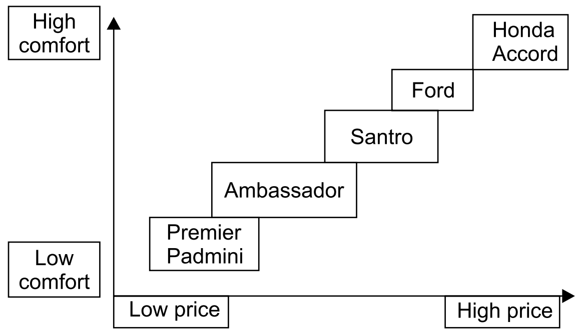
Ideally, the advertising budget or expense on advertising should match or be a little less than the extra profits the advertising generates. This is expressed as:

S = f (A), where S is the sales figure and A is the advertising expense.

This equation presumes that the only factor of sales is advertising, which as we know is not correct. Going with the presumption made in this formula for the time being, gross margin of profit minus the advertising expense gives the net profit:

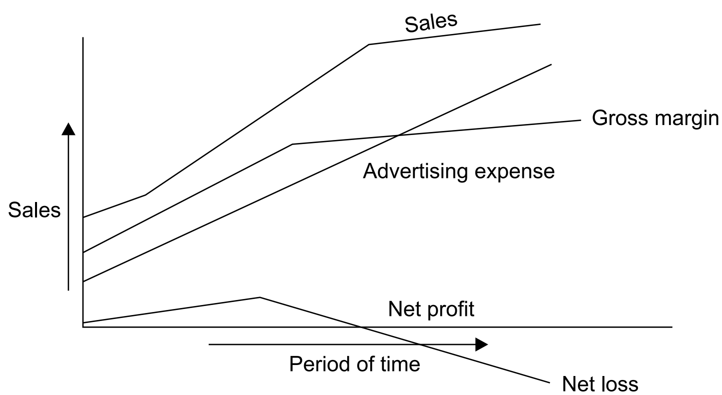
Net profit = gross profit – advertising expense

Figure 15.15 Price Comfort Matrix for Cars



In case the advertising expense increases beyond the gross margin, the firm runs into losses (see Figure 15.16)

Figure 15.16 Advertising Expense, Sales and Profit Matrix



The main disadvantage of this analysis is that it presumes that sales come only through advertising, while it is known that other factors like sales efforts, pricing promotion and after-sales service play an important role in increasing sales.

TRENDS AND INDICATIONS

Let us discuss some macroeconomic indicators, which are only indicative (for correct figures the students will do well to find them out). India's GNP has increased from 1980 till today by about seven times on current prices. Similarly, the per capita GNP has also increased by six times in the same period. Similar information should be collected for other countries as well.

World Marketing Strength

The information given in Table 15.6 is based on the *World Competitiveness Report*, 1995.

Table 15.6 Marketing Strengths of Different Countries

Country	*Overall rank*	*Infrastructure*
USA	1	2
Singapore	2	1
Japan	4	28
Germany	6	11
Canada	12	3
UK	18	16
China	34	45
India	39	43
South Africa	42	19
Mexico	44	33
Russia	48	48

Commercial advertising rates of the channels depend on the following factors:

1. Geographic coverage of the channel.
2. Language used.
3. Types of programmes.
4. TRP ratings of the individual programmes.
5. Telecast time.

As companies plan research on the effect of advertising it should be understood that people do not concentrate and the answers you get may be not as accurate as you might take them to be. People get varied perceptions about the advertisements as can be seen from the following statements:

1. For a successful campaign the agency claims the total sales increase is due to their creative effort.
2. In case of failure of a retail campaign, the retailer feels that the misadventure of the marketing/advertising department is thankfully over never to be tried again.
3. In business-to-business marketing (industrial marketing), the sales team always takes the credit and yet acknowledges the fact that the advertising campaign helped them in getting the door opened.
4. In elections, the defeated candidate will blame the marketing/advertising campaign and say that it did not reflect his true image.

These may be partly true and in order to be impartial one has to assume that only when advertising is playing a major role in the marketing and the other factors are either dormant or non-existent can the evaluation be properly judged.

The working plan for assessing the marketing/advertising effort can be worked out in the following manner: Divide the market into two equal segments. As you start running your usual campaign, continue it for a period say, two months. Next while you continue the campaign in both the segments in one segment (only), start a spot advertising campaign (see Figures 15.17[a] and 15.17[b]).

Figure 15.17(a) Effect of Advertising Campaigns on Sales

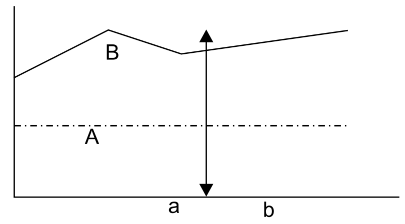
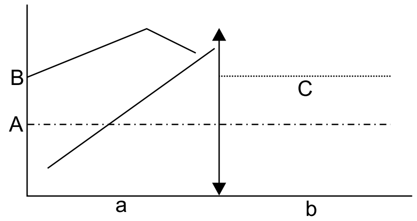


Figure 15.17(b) Effect of Spot Campaigns on Sales



On the horizontal line, the time period is divided as a and b. A is the regular advertising campaign, B is the sale figure. In Figure 15.17(b) you see that after half period C, a spot campaign has been started which has given rise to sales.

Market sales before the TV spot campaign is Rs 600, 000. Sales during the spot campaign is Rs 630,000.

MEDIA SELECTION PLANS

While doing media planning, the following questions need to be answered:

1. Whom are we trying to reach?
2. Where are they located?
3. What is the best time for them to see the advertisements?

To answer the first question we have to know the exact market segment. Although everybody could be a prospective buyer, some are more inclined to buy. Marketers segregate these people through demographic, psychographics social class and lifestyle categories. It is believed that people in one segment would behave in a similar manner and would have the same type of needs and preferences.

Rich people with trendy lifestyles will read magazines like *Vogue* and *Cosmopolitan*, while those not in that class will not be reading these magazines. This helps in focusing on the segment directly interested in your product.

In India 70 per cent of the population lives in villages. The balance 30 per cent lives in cities and has a different mindset than that of the villagers. With several languages being spoken in the country, there are several newspapers and magazines catering to each language group. These are the best media to reach out to people of a particular linguistic group. Products used in towns can be advertised in English as it is the language which most people understand.

Television as a media has a wide reach today and telecasting is available in several languages. If price is not a major deterrent then TV as a media is most effective.

In order to find the answer to the question 'what to advertise and when?', it is best to see creative advertisements. If the advertisement is pictorial, full of exquisite colours, then glossy magazines are the right print media. If a lot of demonstration needs to be shown, TV should be used.

Magazines have their definite readership and each has its own particular flavour. What will go well in a magazine like *India Today* will look out of place in a movie magazine.

Readership surveys of magazines tell us the following:

1. Percentage of men and women readers.
2. Percentage of age group in each case. For example, what percentage of women readers in the age group of 25–34 read every issue of *Femina*?
3. Percentage of income groups reading a magazine. For example, what percentage of men in the income group of Rs 25,000 per month read every issue of *India Today*?
4. Percentage of education segment. For example, what percentage of graduates read every issue of *Business India*?

In the same way, information is available with respect to marital status of the readers, number of children they have, what religion they practice.

Table 15.7 shows the advertising volume in the US for 1980:

Table 15.7 Media-wise Advertising—USA, 1980

Media	*Million $*	*%*	*Media*	*Million $*	*%*
Newspaper total	15,615	28.5	TV Total	11,330	20.7
National	2,335	4.3	Network	5,105	9.3
Local	13,280	24.2	Spot	3,260	6.0
Magazines total	3,225	5.9	Local	2,965	5.4
Weekly	1,440	2.6	Radio total	3,690	6.7
Women's	795	1.5	Network	185	0.3
Monthly	990	1.8	Local	2,755	5.0
Farm publications	135	0.3	Direct mail	7,655	14
Outdoor	610	1.1	National total	30,435	55.6
Business publications	1,695	3.1	Local	24,316	44.6
Miscellaneous	10,795	19.7	Grand total	54,750	100

Media Status

NEWSPAPERS

A good source for information, news, entertainment and local activities. The reading public constitutes adults, mainly the elderly, better educated and better off people. It has wide market coverage.

CONSUMER MAGAZINES

Good for current social and cultural events, mostly local, glossy but quality not uniform in every magazine. Reading public comprises sports people, cooks, housewives, hobbyists and investing public. Circulation in large and medium-size towns.

SPECIFIC MAGAZINES

Good for special needs, like women magazines, film-based, health, cooking, business, sports and cultural/social magazines. They are for the trendy public and they increase their awareness of the social and cultural environments.

RADIO

Radio is a media of the masses, it is highly varied in its content, from news to classical music to art and film music. The media covers the entire country and with FM it is becoming popular again amongst the youth as it provides clear music of all varieties. Radio is especially popular in villages where colour TV is not yet available. It can be used as a media for the masses and for the youth who listen to FM radio. Radio does not provide international exposure in a way TV does with satellite channels.

TELEVISION

Television is the most visible media and its covering across the country is large; it covers even remote villages. It has a great impact on people. Live demonstrations of products can be shown on TV. Viewers include all segments, the whole family (the viewing time may differ for parents and children). The advertising costs on TV are high. There is uncertainty about reaching the desired segment as many people use the TV remote to view other channels when advertisements come on.

OUTDOOR ADVERTISING

This has high visibility in a limited way, for the people on the road. It distracts drivers and hence is being banned by some states including Delhi. It gives brand awareness and broad product view.

DIRECT MAIL

It is selective and personal. It is becoming popular. The mailer controls the persons who will get to read the mail but has no control on their responses.

CABLE TV

It uses the superimposing technique, which is mostly not acceptable to the channel owners. Low cost and local advertising is possible. Viewers find advertisements an irritant which appear when they watch their favourite programme.

YELLOW PAGES

This is a mass media. It appeals largely to those who have access to phones. It has limited usage.

NEW MEDIA ON THE CARDS

In France, the phone company provides small computers, Minitel, to their subscribers, through which they can contact banks, shops, travel services among others. Computers at home have software that superimposes advertisements as you browse on the internet. You see the advertisements on the bottom of the computer screen. In supermarkets, big screens show and the products on sale and where they may be found. This is an extension of the POP advertisements, which have remained in vogue for some time.

Task for Students

In order to make the music albums popular, singers and others in the music world have started resorting to showing music videos with vibrant motions/colours and actions which attracts the young mind. Music videos are short films that have specialised directors, actors, dancers and crew.

* * * * * *

Situation

Music videos are good, entertaining advertisements. They advertise the music albums. Discuss if you rate them as advertisements or as entertainment. If they are a bit of both, discuss their role as advertisement. Do the music videos follow the telecasting norms of decency in India? Do you think that the subtle advertising of music albums through music videos is side-tracking the real advertising time?

Solutions

Divide the class into groups of five people, who will form an advertising agency. Each group will do the following:

1. Give a name to their agency.
2. Allot portfolios among themselves as shown next:
   - CEO
   - Account director
   - Creative director
   - Copywriter
   - Media planner

   Next, they jointly meet a firm and take a brief for planning its advertising for the next year. (Select a firm where one member has easy access to the top brass. In case it is not possible, ask your professor to give you a hypothetical firm's brief.)
3. After getting the brief, find out the target market segment. Most likely the client will give you ample information on this subject.
4. Next, the media planner should suggest the right media for reaching the target segment. This is discussed and finalised after taking the clients approval.
5. Keeping the media in view, the creative persons should work out an advertising layout. The CEO and others then test the layout through advertising research in the market segment and modify the layout if needed.
6. Find out the current rates of media purchasing and finalise the budget. It should be in line with the budget idea given by the client.
7. Each team should prepare individual portfolios of such total advertising plans and keep it with themselves. These will come handy when students go out for job interviews.

As a corollary, find out who are the members of other market segments who will be exposed to the advertisement and discuss if a demand which cannot be met is being created by the advertisement. If yes, is it ethical, especially for countries like India?

Now add one more member to the team. He should play the role of the advertising manager of the client's firm. Now, arrange a meeting of your team with the advertising manager and discuss the campaign with him. (If possible conduct this with a real advertising manager.) Prepare for the meeting, anticipate the questions he is going to ask and your answers to them. One member should be asked to make minutes of the meeting.

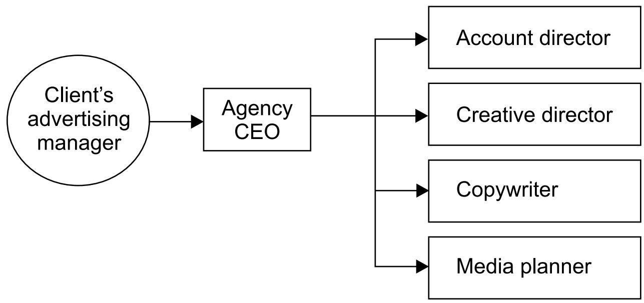
At the end of the meeting, please analyse the entire episode with the help of your professor and locate the improvement opportunities in your presentation (see Figure 15.18).

Once the team has been formed it can be used to do many such tasks. A well-made campaign is in itself a reward for the students.

Of course advertisers want accountability, but it must often be measured in a more modest and intangible way than we would like. I am afraid that we will have to accept that much advertising can repay fully over long periods of time and its payback is impossible to monitor with any degree of precision.

We find that millions of rupees are spent on advertising everyday. Firms spend up to 30 per cent of their profit after tax on advertising. What is the method in the paradoxical situation? We will try to analyse the same in this chapter.

Figure 15.18 Suggested Team for the Students' Task



Are the products made by us needed or used by anyone? If yes then who are they, when and how do they buy and what are they willing to pay for it? An advertising agency needs to understand answers to these questions with a great degree of accuracy.

Successful campaigns are the result of this knowledge and how the agency uses it to a large degree. Besides they should know the market changes occurring on a continuous basis and be good at communicating. An excellent copywriter using good, correct language may not be able to cause even a ripple if the copy goes above the intelligence level of the target market. The mindsets of the people, the slang they use and the imagery acceptable or valued by them will create the right impact. What matters most to the copywriter about a product may have little interest to his audience. The lifestyle of people in advertising, who enjoy good salaries, may be totally at variance with the customer group. As film actors sometimes live in the slum areas to get a feel of the place and the mindset of the slum dwellers, it will be a good idea for the agency people to at least investigate the members of the target market segments in depth with an open mind.

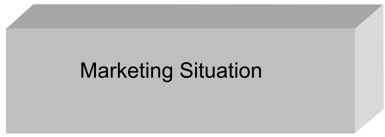
The making of an advertising campaign is a team task and that is where the team members who may be experts in their own field of activity teach one person the psychological angle of the target market as it is the focal point of any campaign. This team building process is used in most agencies where the senior members use campaigns for developing the junior members of the team. Even the most well-formulated campaign can go haywire due to reasons other than the campaign itself. It could be that the timing of the campaign or even the endorser or the model used may not have the right kind of appeal.

Therefore, advertising agencies are advised to use all caution in spite of the time constraints and the dreaded deadlines. A bad campaign can do a lot of damage and a good one can bring in additional revenues to offset any loss due to delay in the launch of the campaign. One only wishes that the clients would understand this fundamental part of advertising!

The dilemma faced by the people in advertising, both the client's people and those from the agency, is that when there are a number of controllable and non-controllable variables in the marketing mix, it is the advertisement which gets the axe for non-achievement of marketing targets. Figure 15.19 shows this clearly.

Were the increased sales due to advertising or due to better discounts to the dealers, Maruti may be guessing! Was the celebrity endorsement responsible or was it personal sales efforts by the sales team manufacturers of air conditioners might have to worry about. Similarly in each situation where the sales targets have been exceeded or sales have fallen short of the targets, the dilemma will always be there.

Figure 15.19 Channels for Achieving Marketing Goals



The customer mindset and the socioeconomic factors are non-discernible like a black box and what comes out of it is the only indicator available. The efficacy of advertising can at best be seen in its absence. Just try to imagine a week with no advertisement on any media of Coke. It will have disastrous effect on its sales. In the first few days the hard-core Coke drinkers will not have any drink. Later on they may start drinking any other drink.

There are three types of customers:

1. Hard-core addicts who will not have any other drink for at least a month.
2. Those moderately addicted to Coke who will change to another drink in a week's time.
3. Those in no way addicted to Coke who will change over to another drink on the first day itself.

It is therefore impossible for any of the colas to even think of reducing their advertising leave alone closing it completely. If you ask Coke why they advertise so heavily, their answer would be as follows: They know that their customers like the product. The advertisements are to keep pressing the point. For non-customers, they would want them to try out the product and then get in to the habit of drinking it. They encourage that their customers serve Coke to their guests as well.

Advertisers of other not so well-known products advertise to improve their brand image or brand equity. Advertising helps in changing the perception of the customer, who uses a competitive product, in their favour.

Advertising is used for among other things to introduce new features and benefits of the product. Advertising works on many levels:

1. On eyes and ears for receiving the message.
2. On the mindset for understanding the message.
3. On the heart where feelings create goodwill and proper response.

Therefore, while testing an advertisement, the following questions need to be answered:

FOR THE EYES AND EARS

- Did the advertisement reach the customer?
- Did it catch the customer's attention?
- Did it bring in the top of the mind recall?
- Was it seen or heard or both?

FOR THE MINDSET

- Was the advertisement understood in the way it was meant to be understood?

- Did the customer get the message?
- Were the message and brand read together?
- Was the message not clear?

FOR THE HEART

- Was the product accepted by the customer?
- Did it change the customer's attitude about the brand in its favour?
- Did the feelings change after seeing the advertisement?
- Did the brand perception change?
- Did it change the perception of competing brands against them?
- Did the purchase action take place?

At this point the customers can be asked about the difference the advertisement made—was it the music, a phrase or the slogan or the design, the artwork—and it will give you an insight about the success or non-success of the advertisement.

Advertisers and the agency both keenly await the result of such a response. It is not worthwhile to stand on ego and keep imagining that I am the best creative person and can do no wrong. Remember that a lot of money is involved in the game of advertising and it may have little effect on you as the agency man but it could make or break a product and with it its firm.

Some reactions about the advertisements could read as follows:

1. A loser in the elections: 'if only my image was properly advertised'.
2. An advertising agency after the successful launch of a product: 'the sales graph is ample proof that our campaign was a big success'.
3. A retailer may lament after spending money on advertising without any increase in business: 'it does not work for us, period'.
4. An industrial marketing manager may be sure of his team but still want advertising to get a foot in the door for his salespersons.

ADVERTISING—FOCUS ON CONTROVERSIAL MATTERS

The clothing firm Raymond advertises its suiting as suiting for the 'complete man'; it looks at the market segment of the rich and elite. Even companies like Manikchand Gutka claim that it is aimed at the elite only. Lots of advertising can be seen in the media everyday for the high bracket segment. First of all do the products deliver? Can they really match up with the expectations of that customer group?

Creative art focuses on the mindsets of the people. It is believed that everyone tries to mould or get moulded as per his or her environment and other fellow beings. Thus people develop symmetry in their behaviour pattern. If there is no precedence of behaviour, people develop one.

Advertising is fluid, dynamic and it lacks a permanent structure. It also means that advertising creativity comes more from the creative person rather than from the customers. That is why in many cases, an advertisement liked by the agency is severely criticised by the viewers. Everyone sees what he wants to see, only a view of one of the sides or parameters of advertising.

The blind men's bluff is an appropriate example for the case. Six blind men feel an elephant's body and express their reactions as follows:

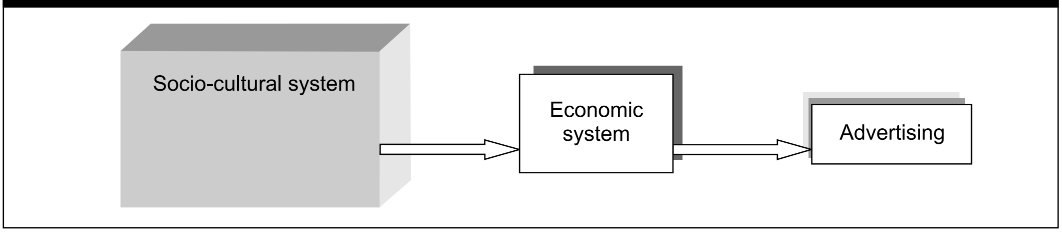
The first touches the elephant's side and says it is a wall.
The second touches the elephant's feet and says it is a tree.
The third touches the elephant's tusk and calls it a spear.
The fourth feels the elephant's trunk and says it is a snake.
The fifth touches the elephant's ear and calls it a fan.
Finally, the sixth touches the elephant's tail and calls it a rope.

If we were to ask people if an advertisement was interesting, the answers would be:

1. Industrial product advertisement—not at all
2. Radio jingle—sure
3. Classified—hardly
4. TV commercial—of course yes
5. Direct mail—sometimes

Advertising is, therefore, a part of the entire socio-cultural system (see Figure 15.20).

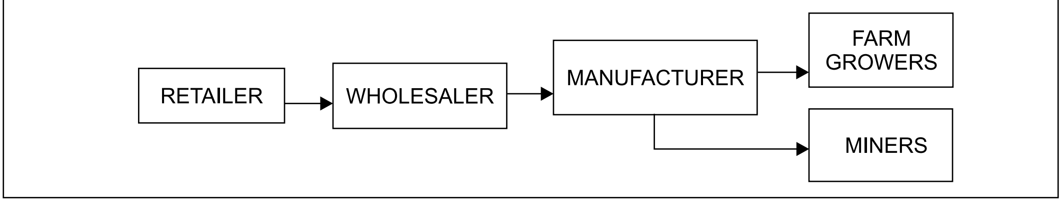
Figure 15.20 Advertising and Socio-cultural and Economic Relationships



Basically people are highly self-centred. They like to take care of their own interests. People are usually apathetic towards their surroundings unless they start interfering with their self-interest. Therefore, as a corollary, to make them interested talk of things of their interest.

The free market is supposed to be product of the US. In free markets the individual buyers decide what to buy and what not to buy. The manufacturers and sellers have to manufacture the same products. The process is the reverse of the movement in the order of raw materials, production and marketing (see Figure 15.21).

Figure 15.21 Retailers to Manufacturers and Raw Materials



The free market encourages competition, which is to the benefit of the consumer. Competition among the sellers and suppliers forces the manufacturers to keep on innovating and differentiating their products. Prices, on the other hand, depend on competition and the demand–supply equation.

Selling Price = a f (competition + supply demand gap)
Where a is the cost of manufacture and f is the function.

To make matters more complex, we have GNP, salaries, wages, rents, interest rates and dividends which all define the market. The free market believes that the customers are wise, sane people who decide on only the merits of products. Yet, there are sceptics who believe that the contrary is true and that the customers need to be nurtured and educated. The government of the land comes to the rescue by formulating laws for the protection of customers.

Free thinkers want the following to be happening in the market place:

1. Buyers and sellers should be free to ply their trade as they deem fit within the law of the land.
2. Customers should be accepted as people with intelligence, who can make the right decisions.
3. Competition provides the required checks and balances in the market place, which is beneficial to the entire community.

The free market, including advertising, is on the firing line for the following reasons:

1. Suppliers can force buyers into buying their products through alluring advertisements that may not always be justified.
2. Buyers may be given a lopsided view if they are told about only the favourable things about the product.
3. Multinational corporations and large businesses dominate the market and can squeeze out small players, who may be offering a good product, through sheer money power.

Business guru R. Nadar has the following remedies for the ills of the free market:

1. Firms should remain honest in their dealings.
2. They should stop corrupting the politicians with underhand election funds.
3. Be good to workers by providing them a healthy work environment.
4. Stop polluting the planet by disposing solid, liquid and gaseous effluents onto the earth's surface.
5. Start long-range planning for the benefit of their stakeholders.

Let us see how advertising can be dangerous to society:

1. In the West, the use of alcohol among teenagers has increased in an alarming manner. Sports events show healthy sportspersons enjoying drinks in the name of team spirit.
2. Billions of dollars are spent in advertising cigarettes—the main cause of a lot of terminal diseases.
3. Advertisements for contraceptives are almost pornographic and the entire family sees these together.
4. Freedom to buy could lead to unnecessary purchases. People are supposed to become wiser after making a few mistakes. Could the mistakes prove too costly?

5. Appeals to children who have no financial knowledge can become a big embarrassment, if nothing else, to parents.
6. Children and women are fully exploited and at times for the sake of a few rupees they let themselves be exploited to the detriment of society.
7. At times, truth becomes a victim as it is twisted out of shape to give it the right colours that are accepted and appreciated by the customers.

As a first step towards rationalisation, a code of self-regulation has come into place in many countries. Advertising agency associations monitor advertisements and play the role of an internal censor for offensive advertisements.

James Roman has commented on advertisements featuring children. In his opinion, advertising has reached its nadir in allowing children to be manipulated and programmed to act as advertising surrogates promoting the latest industry virtues.

Others have proposed a ban on advertisements directed towards children who are too young to understand the purpose of advertisements, mainly children below the age of eight years. They have suggested a ban on advertisements for candies, which are harmful for the teeth, especially for children of the age group of 8–11 years. Advertisements for candies for older children should have reference to the health problems that eating candies could entail. It has been said that there is no harmful effect on children because of these advertisements except that at the grocers shop children pester their parents into buying the advertised products.

Finally, it has to be seen how truthful advertisements are. Is puffery the main theme or has it been totally avoided. See the following copy:

1. The toothpaste gives round the clock protection against harmful germs (are germs of some other kinds too?).
2. Use the *masala* and forget mother's cooking (how can a masala cook the food?).
3. Use the talcum powder and feel cool (is it a powder or an air conditioner?).
4. Use the soap and become a beauty in 10 days (is the soap also a cosmetologist?).

In your daily life you will find so many of these types of advertisements. Is it not possible to find out the real advantages and benefits of a product and highlight them?

Information, which the customers are looking for, is given next. Some of these are mandatory as per the rule laid down by the government:

1. On the package the weight, size, volume, quantity, date of manufacture and date of expiry must be given.
2. Possible harmful effects of the products must be listed.
3. Price should be inclusive of all taxes.
4. Country of manufacture should be listed.

Information beyond the advertisement comes from topical articles by experts like Murad Ali Beg writing about cars or Tarla Dalal writing about food. Such articles, when they appear in consumer magazines do a lot of good to both the buyers and the sellers.

The plus and minus points of advertising are shown in Table 15.8.

Checking the balance sheet of advertising we can safely say that it is a valuable communication vehicle which provides the customers with variety and choices for their purchase action. Firms take advantage of one brand doing well to group it with other products to make them equally popular.

Table 15.8 Advertising Analysed

Plus points	*Minus points*
Economic growth, helps develop competition	Expenditure can be avoided, creates competition on items other than price like brand equity
New product market development, competition keeps firms on their toes	Creates entry barriers, for competition can equate business possibilities
Helps in marketing efforts, increases market chances	Can raise costs and prices
Provides information to the customers, ensures quality of the product, increases demand	Wrong information to customers, puffery

In highly competitive areas, bunching of products to sell more is a known practice, especially in the IT and computer industry.

ADVERTISING—A MASS COMMUNICATION SYSTEM

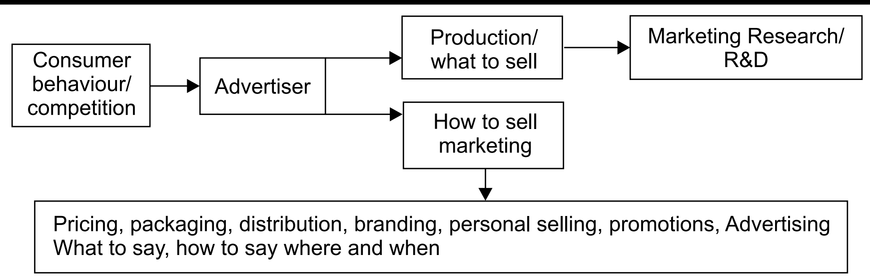
Advertising implies mass communication as the advertiser is communicating with a large number of people who he is unlikely to meet or know. The advertiser does not know the circumstances when the message given by him is seen or heard by the people. The advertiser also does not get any feedback about the immediate response of the viewers after seeing the advertisement.

On the other side of the coin, the advertiser can reach a large number of people at a cost, which is low when compared to the money and time he will spend if he has to meet all of them personally. And this is not even possible as by the time he has finished meeting all potential customers, the product about which the meeting is taking place may even become obsolete. In order to make the most of advertising efforts, advertisers have to make the advertisement interesting, attractive and eye-catching. With TV as a media and the availability of computer graphics, the possibilities are immense.

It is an accepted fact that no two persons are alike. Brain chemistry differs between people, which ensures that every individual will behave differently given the same stimulus. Even the same person behaves in a different manner with the same stimulus, depending on his mood, surroundings and state of health.

Behaviour depends on psychological factors and environmental factors. Figure 15.22 shows the advertising process.

Figure 15.22 Marketing—Advertising Process for Goal Achievement



Creativity comes from generating several ideas and then through the screening process, the right idea is arrived at. Some years back, Coke was declared the official drink for the 2007 Cricket World Cup. Naturally, the main competitors, Pepsi faced rough weather till they got it right. When somebody said, after all what is so official about cold drink, the Pepsi slogan came as a breath of fresh air. It said: 'there is nothing official about it. Drink Pepsi!'

While making an advertisement, care has to be taken to differentiate between providing awareness and creating emotional bonding with the product. For this purpose the following can be used:

1. Product benefit ranking.
2. Adjectives to be used.
3. Metaphors to be used.
4. Success stories to be told.
5. Endorsers to be selected.

For commercials, activities around the filming have to be activated. The use of the product's unique selling proposition (USP) or several USPs depending on the plan of advertisement, and the media is a big help in creating an eye-catching advertisement:

1. Advertisements must specify the benefits buyers will get from the use of the product (if possible, depending on the product and more especially for industrial products, the benefit if translated into rupees per unit of time will have great pulling power).
2. The benefits should be different from what the competition is offering.
3. The benefit must be strong enough to become a driving force for the millions of viewers.

For understanding how agencies try to see that the customers buy the products advertised by them and how they persuade them, the following points need to be considered:

1. Creativity of the advertisement.
2. Eye-catching presentation.
3. Matter that is easy to understand.
4. Acceptance of the proposal given in the advertisement.

Who says so is important in advertisements. The endorsers should have credibility with the customers. A professor of law or a leading lawyer would be the best choice for endorsing a book on law. However, if the lawyer is taken for a model who says good things about the book because of the money he is getting for the advertisement, the credibility goes down.

A pretty girl advertising a lipstick will be accepted as she would be considered an expert. The same model may not be the best choice for advertising detergents as customers may not believe that she has ever washed her clothes herself. Once the viewers accept the source, they tend to put the advertisement in their memory and recall it at the time of purchase even though they may have forgotten the endorser.

The advertisement becomes eye-catching if the firm has good brand equity. Similarly, if the endorser is well respected, then the advertisement gains attractiveness.

For creating a positive attitude among the customers, the following methods are used:

1. Expressing views in a way which is of interest to the viewers.
2. Enhancing the customer's ego by praising him for taking the right decision.
3. Making statements, which can be verified by the viewers, through logical reasoning.

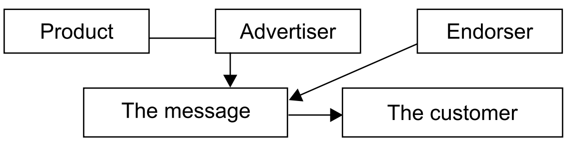
4. Giving the benefits the customers will derive from the products. At times, letting viewers draw their own conclusions arouses their curiosity. The cream makes skin smooth and glowing, have you tried it?
5. Giving consumers the benefits provided by the competition and at the same time stressing on the positive side of your product and the not so positive side of the competitors. The comparison highlights the product as the right choice. These days competitive advertisements have become the vogue. Care must be taken to give the right picture, the truth and nothing but the truth, because otherwise you may be dragged to court by the competitors.
6. Emotions play a vital role in purchases made by people, although most will not agree to this statement. Some examples are: (*i*) For a prettier you! Get the man of your choice by using XYZ cosmetic; (*ii*) Do you know what will happen when you are no more? Save for your loved ones, Insure with us—LIC; (*iii*) What kind of life do you want for your grandchildren? Vote for a pollution-free world—grow more trees; (*iv*) Today your friendly neighbour may kill you (an advertisement against drunken driving).

Now that you have got your customers to buy your products how are you going to retain them? The onslaught of competitive forces is never ending. Raising your brand equity is one way of doing it. Next, the risk associated with the change need to be stressed, 'change your cars engine oil and lower the time of overhaul', 'The substitute toothpastes cause tooth decay, are you willing to risk it?' or 'you did try to change once and it lead to disaster. Please make sane decisions now'.

Continuous sales promotional plans are other methods albeit they can be copied sooner rather than later. The customers can be immunised against the virus of the competitive product by putting your own product on its rightful pedestal. Another method is to keep stating what the competition is saying and then, one by one, refuting all their claims logically. For instance, suppose you sell pure fruit juices. The competition claims that no fruit juice can have a shelf life long enough to be able to sell in the entire country. Talk about it and then give proof of your several filling and juice extracting facilities around the country. Suppose you have to sell metro rail to the local public. So far, personal transport has been in use, as other public transport like buses are overcrowded and the public does not want to go near it. Talk about the cost that can be saved, rising petrol costs reduction in pollution levels and the fact that decrease in road traffic will make roads safe for children.

In most advertisements there are four factors that need to be considered together (see Figure 15.23).

Figure 15.23 Market Life Cycle

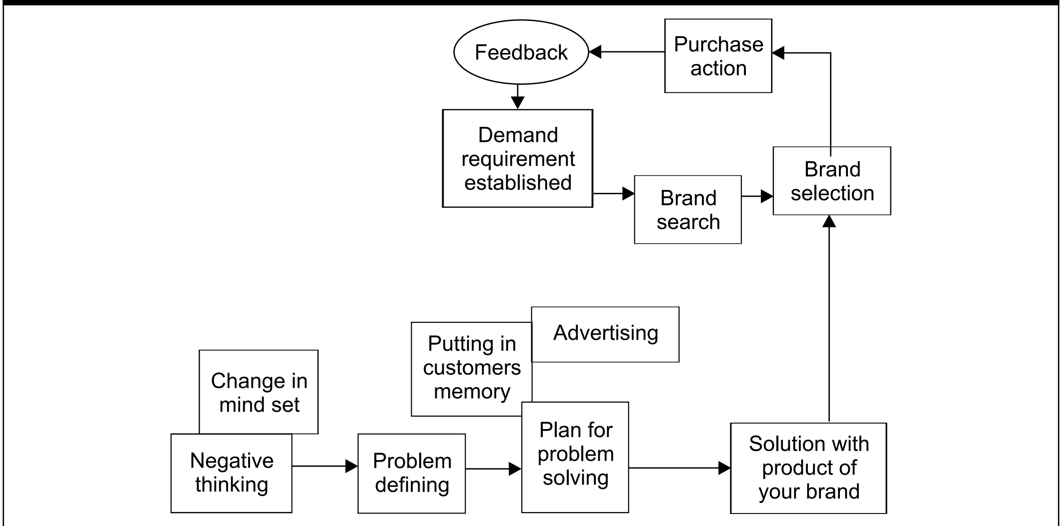


A person belonging to a group with similar attitudes should make endorsements. Furthermore he should be able to withstand the customer's scrutiny test. He should be imaging the self-testing of the customer. He or she should be likeable and attractive. If the product qualities are nebulous in nature and cannot be verified easily then endorsements will be more useful. The customers should know endorsers as worthy of their acceptance. The endorser should take care to project his image as that of an outsider! He should talk like an expert, endorse the firm's product only, and not those of the competitors and should have a long-term endorsement agreement.

The messages should give information most sought out by the customers. The message should appear to the customer as unambiguous, acceptable and convincing. The concept of product benefits should match with what the customer is looking for.

One way is to point out what is missing in the customer's life and then propose the product as a fulfilment of what is missing. An advertisement for an air conditioner could run along the following lines: ' having lived all my life in the terrible heat of Delhi, I have no where to go'. 'Why, this summer go to Switzerland, at least for the climate, buy our silent air conditioners that make you feel like you are in Switzerland'.

Figure 15.24 Advertising to Purchase Action



People start with negative thinking: no, it is just not possible (see Figure 15.24). This defines their problem and then they plan to solve the problem. At this point advertisement comes in handy to suggest a solution and change the perspective of the customer from a negative one to a positive one. With your brand implanted in the buyer's mind, it becomes easy to have your products embedded in the memory bank of the customer for future use and for purchase action.

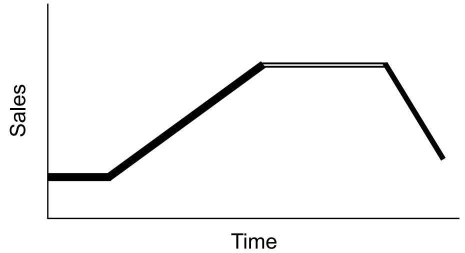
International Marketing Game 15.1

Consider different advertising campaigns to be organised in a few countries like Europe, the US and the Middle East.

Market Life Cycle

The market or a product goes through a life cycle. The market is created then it grows, reaches maturity and then it declines, as can be seen from Figure 15.25.

Figure 15.25 Market Life Stages



The main characteristics of the creation or introduction stage are:

1. Market grows quickly but in a small area.
2. Product may still be in the trial-run stage, the process may not be fully adapted.
3. Prices are high but flexible.
4. Main customers are innovative buyers.
5. Time to build brand image.
6. Limited or no competition.
7. Product launches need high capital.
8. Distributors who know the customers better have the upper hand over the manufacturer.
9. Limited or negative cash flow.

The characteristics of the growth stage are:

1. High market growth.
2. Design of product final, plans on for different models.
3. Production process standardisation is complete.
4. Competition starts to enter the market, prices fall.
5. Building brand image is on the top of the agenda for the firm.
6. Funds are needed for increase in market demand, for advertising and other marketing activities, like promotion, training.
7. Profits come but may yet be only marginal.

The characteristics of the maturity stage are:

1. Low growth of the market.
2. Low level of innovations.
3. Emphasis on effectiveness and efficiency in operations.
4. Price reductions due to increase in competition.

5. Firms try different market segments.
6. Heavy advertising and promotion for maintaining market share.
7. Profits decline.

The characteristics of the decline stage are:

1. Market decreases.
2. Product remains unchanged.
3. Prices are stable.
4. Market runs on its inertia.
5. Many players close shop and firms could take their share at least till it exists.
6. Profits are low.

INTRODUCTORY OR CREATION STAGE

Firms may enter the market at any stage of the market life cycle, but the entrants in the introduction stage get the benefit of being the first and gain advantage over competition which comes afterwards. They can have the largest share of the market. Maruti 800 came in the market as a pioneer small car and it has stayed on top in its category. With early establishment of the brand, the first comers' gains competitive advantage. They can lead in advertising campaigns, distribution networks (by cornering the best members of the channel). However, if the first comers are not vigilant enough, the followers can improve on their product, price, placements and promotion to outperform the first comers.

GROWTH STAGE

In this stage, the focus is on increase in production to catch up with the growing demand. The new product and its technology get translated into high volumes, resulting in profits and increased sales. However, at this stage, competition also opens up with its own brands (brand loyalties are yet to be established) channel members keep having the upper hand with their affinity to the customers. Substitute products, which have been in the market, increase their pressure on the customers with bigger promotional plans. Firms keeping skimming (high) price and invite competition. Copies of the product, which might be better in aesthetics, appear in the market at relatively lower prices (as they do not have to spend much on technology development).

MATURITY STAGE

In this stage, the competition reaches its peak, there is no continued growth, which precludes several firms from occupying their positions and many quit the market. Technological advantage disappears aiding competition; cost reduction has peaked for all the competitors, with no extra advantage to any. Competition boils down to price as the product differentiation has been nullified by competition. Brand image, low price, strength of the channel members and strong sales force are required to stay afloat in this stage. Price reduction can, however, be a double-edged weapon, as price is often equated to quality by the customers and any reduction can be seen as the firm's acknowledgement that its product is inferior to that of the competition's. Reduced prices have a tendency of sticking on to the product; therefore firms prefer to have other types of sales promotions (like buy two and get one free), where the stipulation invariably is: 'till stocks last' and the promotion can be withdrawn when the firm believes it has achieved its objective. Firms need to be sure of the stage of the market life cycle they are competing in. Selecting a niche market segment where the firm enjoys a good share of the market is one possible answer. While there is no point in spending on increasing market share, relationship marketing can bring in the custom and the desired revenues to the firm.

DECLINE STAGE

In this stage, markets get new substitute products, newer technology and the product demands go down in this stage. Video cassette recorders (VCRs) were the rage in the market in the 1980s. With the advent of satellite channels and cable TV networks, VCRs have virtually no market demand. In such times, firms, who have enjoyed a reasonably good market share, can get into niche markets; VCRs are still needed by some teaching institutes. The firms can plan one of the following strategies in the decline stage of the market life cycle:

1. Divestment
2. Harvest
3. Enter a niche market
4. Leadership
5. Turnaround

The divestment strategy enables the firm to sell of its production unit and then the firm can use the money for other markets and products. Selling in a declining market is never easy unless the plant can make other products or is exported out of the country.

The harvest strategy only postpones the divestment decision to take advantage of some competition divesting from the market to cash in on the remaining market. Niche market strategy involves getting into a market segment, which still exists and favours the firm's product.

The firm can assume a leadership role if most major players have exited from the market and the firm can get the entire market to itself. If required the firm can help its competitors in divestment, by taking over their manufacturing facilities, if they are having difficulties in making an exit. The firm could also temporarily use penetrating pricing to scare competition away from the market. However, whatever be the intermediate strategy, the firm should not forget that the market is declining and be ready to divest at the appropriate time or go for a turnaround strategy.

In a turnaround strategy, the firm needs a complete overhaul of the firm to make it leaner, its product more acceptable and may be redefined to take the introduction stage again. Firms in India have been downsizing or as it is being called euphemistically, right sizing, in order to remain competitive in the market. The classic case of a firm adopting a turnaround strategy is that of Chrysler (given in the case studies part of this book), which the students should find both interesting and educative.

Basically, in a turnaround strategy, the firm needs to follow the guidelines discussed next:

1. The firm must define its objectives for the turnaround strategy, like reduction in costs, working capital requirements, etc.
2. It must evaluate its strengths and weaknesses, list the superfluous men and superfluous activities.

3. It must scan the personnel at each level of operation and reduce the number across the board without any discrimination. (In the process it may be wise to take the deadwood, the inefficient and slow movers out.)
4. Look at all the activities and processes to locate the one's not contributing to customer's benefit.
5. If any activity or process cannot be dropped then see if these can be subcontracted, that is, farmed out.
6. It must consolidate its position. After the reduction phase, the firm must take stock again; give better jobs and remunerations to the remaining personnel to ensure that they do not fall into the fear of losing their jobs.
7. Finally, the firm must reassess its new strengths and weaknesses and compare results from the initial objectives of the turnaround strategy.

QUESTION FOR DISCUSSION

1. What are the major problems in communications internationally?

16 International Public Relations

AIMS AND OUTCOMES OF THE CHAPTER

This chapter's focus is on defining international public relations (PR), the common objectives of PR, the PR process, the target public for PR and the PR message. Public relations can be and usually is an effective form of creating a positive marketing climate for the firm and thus becomes part of marketing communication methods.

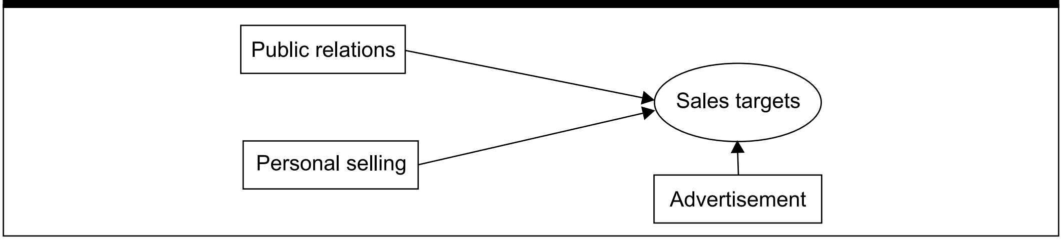
INTRODUCTION

What we see on TV as advertisements for eggs, milk and diamonds is not direct marketing/advertising as you hardly find any sponsor. Drink more milk, eat eggs everyday are meant to create awareness among the public and hence can be called PR campaigns. Unfortunately, the task of PR is not appreciated by most people and it tends to become a thankless one. During election campaigns, after the candidate has finished his speech and gone, it is his secretary who remains behind to answer the questions regarding how the speech should be interpreted for improving the candidate's image. After the corporate chairman has given an exposé of the firm's plans, its elaboration and explanation is done by the PR persons. Press releases are part of the PR job. In case of any catastrophe, the PR has to explain how the firm is coping with it and the damage control measures it is going to take. The Exxon oil spill in the Atlantic ocean had the oil company's PR people on their toes. It may be added that in such crisis situations, even the CEO takes the role of PR person for the firm.

Public relations covers all the communications of the firm except marketing, advertising and personal selling communications. Public relations can be defined as the process of understanding public attitudes on relevant issues, interpreting these attitudes for management, and then working either to keep the organisational polices and practices with those attitudes or to modify the attitudes themselves.

Publicity is only one aspect of a PR job, which covers the making of press releases given regarding the firm's activities and plans. Besides, PR is a useful tool in creating positive ambient cue for the sale of firm's products in the target market segment (see Figure 16.1).

Figure 16.1 Tools for Achieving the Sales Targets



The task of PR is to support the personal selling and advertising efforts in the achievement of sales targets.

Public relations task in marketing activities is subtle. Nonetheless it is equally important, as through PR, the firm is able to build custom/customer base not as a hard sell exercise, but by gaining customer support. This is done with great finesse and yet by bringing customers on the right side of the firm: *You like us, you buy from us.*

The main features of PR are as follows:

1. When firms arrange PR activities, they do not have total control on the message being sent out. It becomes the prerogative of the editors of the media and they can surely use their right. In personal selling or in marketing/advertising, the firm says only good things about the product. In the case of PR, the media can express their likes and dislikes in their reports and not just what the firm wants them to do.

2. Public relations is addressed to several different classes of people, the customers being one of them. The message goes to the firm's stakeholders, the buyers, the sellers, the investors, banks, the government, local bodies, trade associations and social activists like environment protection groups. It pays to keep these people on the firm's right side.
3. Public relations does not have any direct media cost as the PR message goes in the form of media editorials. No media space or time needs to be purchased for PR.
4. Public relations, besides assisting in improving sales, also performs a number of pre-planned tasks like improving investors' interest in the firm. Labour relations and activities connected with labour welfare get publicity through PR.
5. The most visible role of PR is seen during annual general meetings of the shareholders of firms. The entire programme is managed by the PR department of the firm.

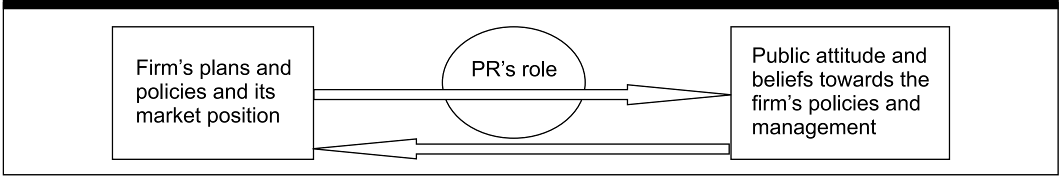
THE PR BASE

Firms have plans for marketing and advertising with properly laid down objectives. In the same way they should have plans and objectives for PR activities. The main objectives of marketing are to increase market share, enlarge geographic base and train the salespersons.

Objectives of PR

One of the objectives of PR is two-way communication between a firm's management and its public, as can be seen from Figure 16.2.

Figure 16.2 Role of PR in a Firm



The PR department, therefore, is not only the custodian of a firm's information base, but also plays a dynamic role in ensuring that public opinion moulded in favour of the firm.

An example of the effect of PR activities or lack of them will clarify the point:

In the 1960s, the Bangalore-based, excellent public sector firm, Hindustan Aeronautics Ltd, manufactured small aircrafts used for spraying insecticides over vast expanses of agricultural land. Some of these aircrafts crash-landed due to some technical problem and this good firm went into disrepute. It took a lot of PR work for the company to be recognised again by the people as a major technology-driven firm.

As against this, at about the same time, an American firm operating in India came to know that its aviation turbo fuel (ATF) had got a tiny trace of extra moisture than specified. The firm promptly downgraded the ATF as kerosene oil and gave prominent PR advertisements in this regard thus gaining mileage from what could have been a disastrous situation for the company. The high image of the firm in the public's mind carried the day for the firm.

For this purpose it becomes the foremost task of the PR department of any firm to keep its eyes and ears close to the ground and plan proactive interaction rather than trying to retrieve lost ground on any account.

Public relations has to coordinate between public opinion and the firm's plans and policies. This would help even at the last minute for taking corrective action if needed. Most firms are aware of the strong sentiments of the public towards the environment and towards pollution control. As firms take measures in the direction of becoming non-polluting industries, they should keep the public informed about their actions in this regard. Plans and policies are not enough as the public wants to know the action firms are taking. Firms need to address other socially-relevant issues like growing more trees, adopting parks for maintaining green areas of the town. Firms are corporate citizens of the country and it is imperative that they behave as such. It is equally important to let the public know that firms are responsible corporate citizens and this is achieved through PR.

As new competitive firms start operating, they can, with a little effort, develop a good public image. Even if your firm's image has been good so far, where does it stand in the competition today? The best way to answer the question is to have a survey conducted and after that take any corrective measures as required.

With the advent in India of several reputed international television (TV) brands like Aiwa, Sony, Thomson and LG, firms like Videocon and BPL would have taken a bigger beating but for their good public image. Hence, you can imagine that the task of PR is endless.

As a marketing mix factor, PR has to come up with the most significant factor of the firm, which is promoting sales of goods. This is done mainly through press releases, which tell about the firm's achievements, plans and changes being brought about for increasing efficiency and customer satisfaction. These press releases play a vital role perhaps much greater than direct advertising as these items when published in the newspapers come under editorial purview and hence get greater credibility than advertising. The only danger is of the editorial pencil which may remove even the punch lines and make the whole thing drab.

Firms gain good mileage through their brand equity. With high brand equity, firms can charge higher prices and still sell in large quantities. It is the name that sells in most cases. The name provides the guarantee of quality. For people for whom price is of no consequence, brand is what they buy. Even price conscious people buy products of good brands for the value for money they provide and product life thus rendering them economical to the buyers.

Damage control is a major responsibility of PR. This task usually needs to be performed only once in a while. But it must be done well as not handling it properly could lead to greater disaster. Natural calamities like floods and earthquakes cause problems for firms, but how firms deal with the problems and what the public's perception about it is of great importance to firms. Then there are man-made problems like the Bhopal gas leak. Smaller hazards keep on plaguing firms and only good PR can nullify the negative effect of these on the firm's image. A negative image could have a bad rub off on a firm's sales and profits. It is the reputation and goodwill of the firm which is at stake!

Marketing research helps in understanding the difference in perception about the firm's communication to the public as against the perception with which the firm sent the communication and to know the correctness of the communication. Understanding the nature of public acceptance will help the PR manager to tailor the next message according to the corrections required.

As we have seen, the objectives of PR are different from those of advertising. Public relations has to project the public view of the firm in the first instance. Public relation managers are in constant contact with the public, the opinion leaders, the government and the customers. These contacts provide knowledge about the attitudes of people and the PR person has to be alert to catch even stray phrases that might be of significance to the firm.

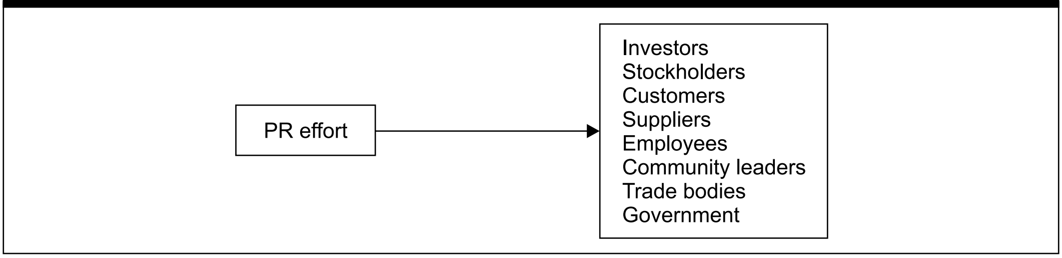
One problem which many firms face is that they are perceived as being laid-back firms. Philips had this image till the 1980s. The PR department at Philips worked very hard to change this image.

When readers read any article from the editors it has a different effect on them than seeing advertisements.

Earlier, the success of a PR campaign was measured by the column centimetre space it could get in the favoured media. The bigger the space, the better the PR. It does not, however, tell you the effect the space gained has on the public mindset. The ultimate test, as in the case of advertising comes from an increase in sales figures and change for the better in the customer's attitude towards its product. For understanding the attitude changes, research similar to advertising research is required.

Unlike advertising research, where the target segment is the group of customers likely to purchase the firm's products, in the case of PR, the public consists of investors, stockholders, customers and suppliers towards whom the PR effort is directed (Figure 16.3).

Figure 16.3 PR Impact on Firm's Stakeholders



The PR manager's job is to have a firm grip on the media available for transmitting the message to the public. Understanding media thus is an important aspect of his job. In this case, the PR manager approaches the media editors, correspondents with information about the firm, its activities and plans. This is useful information, which makes the media and the PR interdependent.

These days a lot of advertising uses direct attack on competition, which if not refuted can create misinformation among the customers. Two competitive toothpaste brands made competing claims about how long they kept a person's mouth fresh—10 hours said one firm and soon the competitor said 15 hours. A PR job would have sufficed to sort out the issue. The consumer could be made aware of the actual effectiveness of the toothpaste through editorial comments.

With the plethora of non-banking financial company (NBFC), to gain advantage one such firm advertised the norms the public should use to assess NBFC firms. The advertisement had a reverse effect as many people who read it out of context felt that that particular NBFC was not a good one. It took a lot of effort as also their PR team's rapport with the press that helped them in retrieving the situation and giving their side of the story as a press release.

Public relations too depends on endorsements to an extent. If a firm says in its advertisement that their car is the best in its range, the public may or may not accept the statement. The thinking becomes that 'any way it is their advertisement and who will ever say anything bad about their product'. However, if Murad Ali Baig were to say the same thing or the editor of *Motoring Times* says it, the public is surely going to believe it.

Marketing efforts too get a boost with the help of marketing PR activities. A technical short film shows how a car engine gets corroded because of friction between the cylinder walls and the piston rings. Next it shows a good brand of lubricating oil being used that halves the corrosion. And then the film shows the firm's brand being used, which totally removes any possibility of corrosion. The film does a subtle job of marketing PR as the visuals leave a lasting impression on the viewers about the efficacy of the oil.

Public relations helps in image building. Every firm wants to be known as a good corporate citizen. When the public is shown a movie which highlights the efforts taken by a firm in removing pollutants from its effluents, it endorses the public opinion about the firm as a good corporate citizen. Such films help mould the opinion when negative opinions have already been formed. The following will give other examples of PR, which incidentally create goodwill for the firm, which does get reflected in the sale of its products:

1. The CEO of a firm presenting a cheque of Rs 1 million for the Gujarat Relief Fund to the prime minister of India.
2. The marketing director presenting specially-designed cars for handicapped people at a discounted price.
3. The president of a firm sponsoring and inaugurating a sports event for the blind.
4. A firm offering scholarships to deserving children of its workers for higher studies.

Such events if not given the right kind of publicity would go unheard and unsung. It becomes the major task of the PR department to ensure that the good deed does rub off on the cash register of the firm, bringing in extra profitable sales.

It is said *a company is known by the men it keeps*. And how? Good, happy, hard working employees do provide a good general backdrop in the public's mind. Firms go out of their way these days to keep their employees happy. Perquisites like good housing, medical aid for the family, sports activities and children's education are a must for this purpose. The PR manager's job is to focus the public's attention on the theme of happy workmen. The firm automatically gets a reputation as a good firm. Good employees make for a good firm and everyone is interested in doing business with a good firm. A good example of personnel PR is the advertisement of Tata Steels, in which happy employees are shown to be involved in various activities. In the end the advertisement says, 'We also make steel'.

FIRMS AND SOCIETY

Firms do have some dependence on the society in which they operate. They get their employees, investments and home sub-assemblers from it. Society too gets employment opportunities and better living standards, thanks to the firm. Mankapur, a backward area in Uttar Pradesh got a big boost when a public sector firm, ITI, established it factory there with French collaboration. What was once a sleepy laid-back village was transformed into a thriving industrial town. ITI had the opportunity of building its image as a big benevolent corporate citizen. The fact that they did everything to protect the environment of the area was surely a plus point.

Firms do good to the community and the society in which they operate. The PR department has to press home the advantage and get the right mileage which is due to the firms.

PR AND THE GOVERNMENT

In the era prior to 1992, when the Government of India opened up the country's economy, private business was overloaded with government liaison work. The government's lowly-paid staff doled out permits and licenses and it became the breeding ground for corrupt politicians and public servants. With the change brought about in 1992, firms no longer face the same problems with the government as they once did. Yet, there are areas, which still need to be smoothened out, and interaction with the government becomes a primary task of the PR department of any firm.

The industry lobby, with industry trade associations like ASSOCHAM, CII, FICCI liaise with the government to sort out their problems.

THE INVESTING PUBLIC

Investments as equity and bonds are made in the firms you can trust. Hence the PR task for investors is the same as for the marketing PR. Investment PR is a highly-specialised job which entails a thorough knowledge of the money market, interest rates prevailing in the market, thorough knowledge of a firm's financial position and needs. A PR person has to market the firm's financial status to encourage the investing public to invest in the firm. Investment PR requires that information about the investors should be provided to the firm and information about the firm to the investing public.

What are the means available to the investment PR managers to provide accurate and fast information to the investing public?

Press Releases

These are the most commonly used methods of disseminating information. The firm selects the information to be given, then it is written down in a language normally used in the press. You can use a report format or the format used by journalists. If it is given in the form of a good news coverage then the chances of its being read by the public are high.

Press Conferences

When the firms have to say a great deal, like when they have to announce the annual financial report and balance sheet, firms have their annual general meetings (AGM) where the press is invited. Unlike in press releases, in press conferences the media can ask questions to elicit replies to reconfirm their thinking and be objective about the firm. Besides AGMs, firms call press conferences at product launches and during public issues of their firm.

Crisis Management

When a firm faces a situation like a strike or a natural calamity, it must inform the stakeholders including its shareholders. Non-information leads to speculations and this leads to misinformation with disastrous results. It is the ability of the PR department to provide appropriate information during a crisis which helps a firm tide over the crisis with the least damage to its reputation and its sales.

SUMMARY

Public relations deals with public opinion and informs the firm about the same. It also tells the public about the results, plans and policies of the firm. It helps the firm in coordinating its activities to keep it in tune with the public's likes and dislikes. It can help the firm in moulding public opinion in its favour. Public relations is used to help in selling products as also in managing crisis situations.

QUESTIONS FOR DISCUSSION

1. Crisis management is the job of PR. Discuss.
2. Corporate PR and marketing PR are different. How?
3. A well-planned public relations exercise can improve a company's brand equity in a greater measure than its advertising campaign. Discuss.

17 International Marketing Research

AIMS AND OUTCOMES OF THE CHAPTER

With the market economy almost encompassing the whole world, companies need to know the exact market situation in their selected host countries. For this purpose, marketing research is required to be done in the selected countries. International marketing needs huge investments in terms of marketing mix factors and therefore the money spent on marketing research is well justified. In this chapter students will learn the methods of conducting marketing research in the international arena.

With limited market information, companies face the following problems:

1. Wrong product selection.
2. Wrong pricing plans.
3. Wrong channels of distribution.
4. Wrong methods of communication including wrong advertising, promotion and PR.

The best way to conduct marketing research in the international market is similar to marketing research conducted in the domestic market, which is as follows:

1. Identify the problem in marketing or opportunities.
2. Selection of research methods to be used.
3. Identify the information requirements.
4. Identify both the secondary and primary sources.
5. Make the research design plan.
6. Secondary data collection.
7. Primary data collection.
8. Tabulation.
9. Data analysis, interpretation of the data.
10. Recommendations arising out of the analysis.
11. Report writing.

International marketing research can be defined as a method of understanding with great degree of accuracy the business scenario in another country with a view of locating profitable business potential there for the company's products. An international seller of fax machines got a research done in India regarding its demand in the early 1970s. However, since the researchers wanted to project a respectable demand, they gave inflated figures, while the truth was that with a low level of telecom technology available in the country, even normal telecommunication was difficult, leave aside the clarity of line needed for fax facilities. The company, however, got in touch with telecom experts and decided to delay the introduction of fax machines in India till telecom lines improved.

International marketing research is conducted as it helps initially in screening and selecting countries, besides calculating each country's market potential. A company will be able to understand the plus and minus factors associated with doing business in a country with the help of information generated out of a marketing research. With the help of research, a company can understand the general business environment as well as the competitive environment of business that prevails in that country. Research will provide the ideal possible marketing factors like product, price, promotion and placement. Such analysis can be developed to formulate a marketing plan most suited for the target country.

Once the research is started, the company has to understand the variations of cross-cultural behaviour patterns. The exact research process to be used is selected, taking the local language into considerations as many wrong results emerge from the following areas:

1. Wrong selection of market segment.
2. Sample and sample size errors.

3. Association of country-wide data into a simple solution.
4. Use of expatriates for research, who are not aware of the subtleties of the local language.
5. Difference of cultural ethos, religious blocks, value systems, idea of aesthetics, language and biases on the basis of a person's sex.

International market research is organised to gain knowledge about:

1. The market potential, its size on the basis of different demographic factors.
2. Segment and geographic area-wise product demand.
3. Behaviour pattern of consumers in the given market segment.
4. Brand preferences, brand loyalties, possibilities and the basis of shift in brand loyalty.
5. Projection of profit picture for different market segments.
6. New product launches.
7. Marketing problems.
8. Understanding the effectiveness of advertising campaigns.
9. Product innovations, differentiations planned.
10. Competitive strengths and weaknesses.
11. Understanding the levels of product price acceptance by the customers in the target segment.

The researcher gets to know about the product selection process, what will sell and what will not, in a given market. He also understands the importance of the timing of new product launches. At times, for unexpected reasons, companies start losing sales and market share, and unless the company keeps its hand on the pulse of the market, it will never find out the reasons for these downward trends. Market research can be used to confirm the effectiveness of the firm's marketing strategies.

Companies learn about the products that can be sold in the overseas market without any modification, their market potential in the target country and can therefore generate a profit and loss statement for couple of years of operations in the country through marketing research. The company can decide the amount of money it should invest in marketing.

Companies need to start by gathering secondary data for the target markets/country from their import statistics. These are usually available from the ministry of trade and overseas business. Trade bodies and research organisations can be the other sources for information. Historical data of sales and imports for the past few years (five–seven years) would be useful as from there the researcher can extrapolate the trends of sales for the next two years. However, proper weightage needs to be given to changes in a country's general business and competitive environment, and corrections applied as required. Markets that may be small but growing rapidly due to a country's political expediencies should be understood through secondary research.

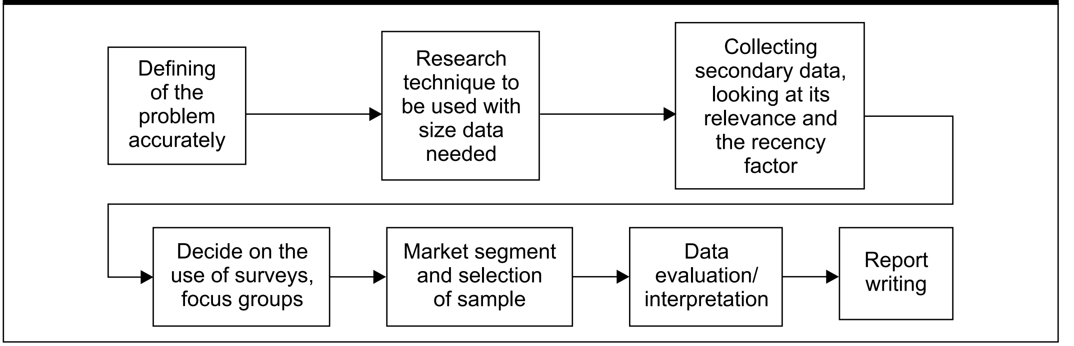
Based on the findings of a secondary research, the company should plan primary research to get more authentic and recent data. Once the overall product demand potential has been assessed, it would be worthwhile to find out the market share of different competitors. A country's demographic situation can be ascertained from the *World Population and Statistical Yearbook*—a publication of the United Nations.

Internationally, companies compete with host-country companies as well companies from other countries. Marketing research should highlight buyer's profile and buying motivations, pricing, the effectiveness of distribution channels, cultural ethos, and policies and procedures followed by competing companies in the country. The research should focus on the entry barriers in the country like government regulations of the host-country, tariff and non-tariff barriers, patents and patent laws, availability or lack of trained skilled manpower and raw materials, channels of distribution and the initial investment required. Host-country governments could have laws that encourage foreign direct investments (FDIs), or it could be against the smooth entry of foreign companies without overtly being critical of the entry. The desire to support local businesses can surpass the need to join the market economy and reap the resultant benefits thereof.

Marketing research data needs to be analysed and interpreted resulting in the conclusions required for making the marketing plans for entering the target country's markets.

The marketing research process involves the following activities as shown in Figure 17.1:

Figure 17.1 Marketing Research Process



International marketing research faces major challenges with respect to consumer behaviour patterns due to differences in the cultural ambience of the home and the host countries. At times, the research methods used in the home country may not be applicable in the host country. For instance, the researcher may not be able to organise focus groups or even research consumer panels in the host country, which he might be able to do in the home country. Section of samples and its size could be a critical element that could leave the research disorganised. Linguistic quirks and wrong translations lead to wrong interpretation of the collected data. In large countries like China and India, even far-flung areas would need different methods of data collection and its interpretation. A country's value systems, aesthetic sense and cultural milieu provide the backdrop where the research is conducted and therefore these must form a major focus area for the researchers.

International marketing research can be organised in the following manner. New product introduction can be organised after discussing it in focus groups. Questionnaire-based surveys also help in formulating decisions about the product. Companies need to test the product benefits the customers are looking for, their attitudes and beliefs towards the product as compared to their thinking about competitive products. Companies can plan testing the product idea and test market the same. Companies can find out the level of price sensitivity of demand of the product through research, as also the best method of distributing the product and the favoured channels of the target segment's consumer groups. Pre-testing of advertising campaigns can be organised for obtaining the best results from the money spent on international advertising. Surveys can provide information about the most effective methods of sales promotion for the products.

Companies do well to understand their information needs before embarking on marketing research in the international market as these can be an expensive exercise. The possible areas where a company needs information are as follows:

1. Looking at the statistical records of imports of the company's products, it can decide to go overseas or stay in the domestic market only. The company can get an estimate of the market demand and trends in the host country.
2. The company needs to finalise the best way to enter the host country. This is possible by understanding the entry barriers in the host country. Only after establishing the reasons for entering the country should the company determine the market segment, its demand pattern, price factors and possible distribution channels as it starts its advertising campaigns.
3. As the company enters the host country, it must decide the market share, turnover, profit projections and the generation of cash flows.
4. The host country's import statistics, production capacities and actual production in the last few years, import duties, import quotas (only where there is a quota system) are important parameters to have information about. Besides restrictions in terms of currency, its fluctuations, political and economic environment, ecology norms and the balance of payment situation are other important area to have knowledge about.
5. Consumer behaviour and related demands should be found out through the research.
6. The company must have information about channels of distribution, important advertising agencies, credit norms, transport facilities and packaging standards. Pricing formulas, product innovations, geographic regions need to be understood by the company as well.

Collecting data through mailed questionnaires is effective in countries like England, Japan, Switzerland, Singapore and Germany, but is not so useful in countries like Nigeria and the Philippines. Electronic surveys are cost-effective in Sweden, Korea, USA and Norway.

The three methods of conducting surveys have the following salient features:

1. Personal interviews have a high level of control over respondents and their responses. They can be used both in urban and rural areas, even with low literacy levels.
2. Telephone interviews too provide a high degree of control. They help in conducting interviews when it is difficult to locate the respondents at home or when there are not enough interviewers.
3. Mail interviews are useful when reaching homes is a problem and when telephone density is low.

While research is being conducted to assess the product demand, areas of consumer behaviour including the cultural ambience need to be interlinked with the research to get the right perspective.

Companies are, at the beginning, unaware of the international market. As far as the domestic market is concerned, businessmen have a gut feeling about the market and its trends to a large degree. This, however, is not true about the international market, which often looks like a black box to a new entrant. Companies must reduce the risk of market uncertainties by organising proper marketing research in countries they want to do business in. They need to know whether proper distribution networks can be established in the country or what type of pricing the customers would accept. Marketing research helps answering some of these questions and in reducing these uncertainties. However, there are always constraints of time and money for organising these researches. Hence, an 'on the spot' enquiry is of great help if conducted by trained researchers.

The secondary data available for different countries are not compatible and its comparison can pose problems. Consumer expenditure in Germany is taken from turnover receipts and in USA, household surveys and production sources also add to the information base. International market research has to take multiple countries into account and consider each country's unique market situations. In low-profit markets, a major research could prove expensive. In many underdeveloped countries, data availability is scarce and not reliable.

Companies find that comparing data is fraught with problems because of the different ways the data has been collected, the time it was collected and the problems that arise out distortions in currency conversion rates. There could be a major difference in the purpose for which the data was collected and the expected accuracy levels. The data must be analysed for its timeliness, accuracy, completeness and the methodology used for collecting the same.

International research needs the following inputs:

1. Ask yourself, what information do I need?
2. Where can I get it in files, library or database?
3. Why do I need the information?
4. When do I need it?
5. What is the money value of the information to me?
6. What would be the cost of ignorance?

Some countries have specialised research agencies like ORG Marg in India, which collect specified data and information that they sell to buyers who are interested in the data. This data could be about specific markets, regions, products or about several of these items. Studies that provide information about a country's imports and exports are usually available from the country's government. Trade organisations like FICCI, ASSOCHAM and CII in India, and such others worldwide, publish a lot of data relevant to their country's commerce and trade both internal and international. Government agencies like the Directorate of Advertising & Visual Publicity (DAVP) in India bring out yearly almanacs and other literature with data and facts about the country's commerce. The export promotion boards are other sources of information needed by international marketers. International organisation like the WTO, IMF and the World Bank, have large research units in each country that gather trade-related information. Several countries provide active governmental support for international marketers and the government arranges for the required data to be available to international marketers.

The latest and the most important of databases are now available at the click of the mouse through the internet. Information on the internet is usually available on a real time basis as it is updated online. Google and other websites offer a huge amount of information online.

Besides these sources of information, multinational corporations (MNCs) arrange for marketing research in the different countries where they intend to conduct a market probe. The travelling executives of these companies are supposed to be the eyes and ears of the company. They watch the markets, store the information, which is then analysed, classified and stored in the company's databank for use. Field research conducted in the international markets needs a thorough knowledge of the country, its culture and economic standards for it to be of real use. For example, competition in shoes in some countries could come from the local town cobblers rather than any known brand. In Kolkata, for example, there are a number of excellent Chinese cobblers operating from small shops that compete with the big brands and they succeed due to their special talent in craftsmanship and in designing shoes for the wearer's comfort.

The database of MNCs covers a wide variety of subjects, different markets, products and knowledge of competition that becomes useful once the company decides to open a particular country's market for its products.

Once the company has acquired or got the relevant market information, it has to understand the opportunities. These need to be equated with the risks involved in doing business in that country. A low-risk country with high opportunities should be the target in the first instance. As the company gathers experience in international marketing, it can plan entry into medium-risk countries that offer the next best opportunities.

Secondary research starts from libraries, online database, trade associations and government publications. Researchers need to find out from foreign embassies about the information available from their countries. Every piece of information generated must be cross-checked with other sources.

Survey research is conducted by using a questionnaire and asking questions from potential customers. The questionnaires should be simple, be easy to answer and be easy to record. Questions should be clear and to the point.

A company planning to get into international markets need to analyse the countries it wants to select after research and then place these countries in a matrix as given in Table 17.1. The countries should be rated on a scale of 1–5 scale, on the following parameters on the matrix:

Table 17.1 Country Ratings

Investment in marketing	*Country A*	*Country B*	*Country C*	*Country D*
Transport costs				
Taxation rates				
Market size				
Market size after five years				
Current/possible market share				
Market share after five years				
Market loss due to expected competition in next five years				
Currency rate problems				
Political risks				
Business laws of the country				
Possible future laws				

The matrix would bring out the best option(s) the company has for going into international markets.

Next, the company can build a matrix describing the countries attractiveness as a market and its competitive strengths, as shown in Table 17.2:

Table 17.2 Country's Market Attractiveness and Competitive Company Strength

	High	*Medium*	*Low*
High	Country's attractiveness	Invest and grow	Dominate in the market
Medium		Make country specific strategies	
Low	Make country specific strategies		Harvest/divest

Companies have to plan their initial operations in countries appearing in top left corner of the matrix. Once the company has established itself in one country, it has to select from the following two options to increase its business:

1. Consolidate its market in the country with intensive marketing plans.
2. Diversify in other countries that have similar markets and business environments.

The research should give the following information:

1. Demand analysis is dependent on a country's gross national product, per capita income. Low-income countries focus on core products like food and clothing, while high-income countries concentrate on heavy industries.
2. Income elasticity of demand can be found out both for consumer and industrial products. Basic necessities do not have much of income elasticity, while the demand for luxuries changes with changes in income.

A country's entry barriers are listed next and these will confirm whether or not its market is conducive for entry:

1. Government regulations regarding foreign firms.
2. Low infrastructure like telephones, power, roads, railways and ports.
3. Poor availability of raw materials.
4. High cost of money, borrowing rates.
5. High rate of import duties.

RESEARCH PLAN

A company that wants to conduct a marketing research has to establish research methods to be adopted and the information gathering process. Research could be of the following types:

1. Exploratory research: This is used for getting initial information. It takes less time and money and can at best be indicative of the trends. The research supports theories and can prepare a hypothesis on the basis of which detailed research can be carried out to confirm the same.
2. Descriptive research: This is more like a census where a large body of respondents are contacted to get the answers to certain queries. Such research is carried out to find out market demands and trends. Since a large respondent base is used, these researches are more accurate and they lead to marketing decisions on the objectives of the research.
3. Causal research: This form of research takes the cause and effect relationship, like the effect on sales of increasing product price.

For students of marketing it is important to understand the theory and practical applications of market research. This material will provide the students an insight into the vital aspect of market research in an easy to understand language without the clutter of market research jargon. With a view to making reading interesting, several examples have been included. Also included are a number of case studies for getting a feel of real life situations.

Market research is associated with primary research for most beginners. However, as we know, market research starts with secondary research, which can be conducted by looking at an immense amount of data already available somewhere and we need to locate it. Secondary data can provide valuable information regarding market size and historical and future growth patterns.

Qualitative research is an integral part of market research. It helps in product development, design and modification. It can also assist in locating the right market segment for the products, as qualitative research directs us towards the customer's mindsets, both theoretically as well as in the real life corporate world.

INTRODUCTION TO INTERNATIONAL MARKET RESEARCH

Marketing has become an all-pervasive discipline so much so that no business or industry can remain untouched by marketing. In the good old days, when there were only a handful of manufacturers of a product, competition was limited or just not there. Marketing as we understand it today was a luxury only as it was not required. Manufacturers made the products and sold it in the market. The stress was on sales. In India, even up to the 1960s, manufacturers were confident of selling their products at a profit without the fear of anybody undercutting them as there was enough business for all. Competition increased, especially after India liberalised its economy and the floodgates of international players were opened. Now, competition has become a vital force that every business has to reckon with.

With increased competition, firms need to play their cards according to the competition and market condition. Hence, the need to systematically understand competition, market conditions and market research!

Let us take an example. When you want to buy an expensive thing like a motorcycle, how would you decide to go about it? Most likely you will take some of these steps:

1. Check out the different brands available by visiting motorcycle dealers.
2. Compare the prices, specifications like the horse power of the machine, after-sales service and the dealer's attitude towards customers.
3. Ask your relatives, friends and colleagues who own bikes about their experiences and views about different bikes.
4. Look for advertisements in different media like newspapers, magazines and TV to get as much information as you can about motorcycles.
5. See your budget and then take a decision based on the information gathered.

In the same way, as a seller, it is important to know what product the buyer wants, where he wants it, what price he is ready to pay for the product, how he would like to pay for it—by credit card, cash, cheque or through some hire-purchase arrangement. Getting the answers to these questions is the task of market research.

Let us examine what constitutes marketing in the twenty-first century. To start with let us again understand the marketing mix factors as given next:

1. Market research (including market survey and analysis): This factor, as will be seen, is used for taking decisions about virtually all other marketing mix factors.
2. Product.

3. Brand.
4. Packaging.
5. Trademark.
6. Logo.
7. Label.
8. Price.
9. Placement or distribution.
10. Promotion.
11. Advertising.
12. Credit and its control.
13. Personal selling.
14. Training of the firm's and its retailers' marketing personnel.

Items 3–7 are directly related to the product.

As already stated, market research can be undertaken for any of the factors mentioned earlier. Besides, market research is conducted to get information about the total market potential, its possible growth and the strengths and weaknesses of the competition in respect to the marketing mix factors.

Starting with the *product*, market research can be conducted to get information about the trends in the following areas:

1. Is there a demand for the product?
2. If yes, in which market segment?
3. What is the level of demand?
4. Is there a demand in peripheral segments? If yes, then what is its level?
5. Is the product acceptable to the market as it is, or is any modification necessary?
6. Are the product package, brand, trademark, label and logo eye-catching enough?
7. Is the package size acceptable?

At this point, student's can pick up an FMCG product and get the market information about its acceptance with respect to any marketing mix factor between points 3–7. They may ask only four–five of their close friends or relatives.

Market research can be conducted to ascertain the market acceptability of *price* vis-à-vis a competitive product and its price. It may be important to know the hidden costs of competition, like extra money for immediate delivery and lower discount levels for distribution channels. Most dealers of competitive products try to play one against the other by implying that your competitor is paying higher discounts while the case may be just the reverse.

In pricing it is of utmost importance to find out the *real* competitive price and also to know if the products under comparison have similar if not the same specifications or if it is a case of comparing apples with oranges?

Higher prices, as we know, can be charged by firms for better products, immediate delivery and better brand name (higher brand equity). Yet, to be sure of the right price to be charged for your product, it is best to conduct market research and be sure that you are making reasonable profits and not losing money by undercutting on price.

Coming to *placement* or *distribution channels*, it is normally believed that for a given product there is a set distribution channel. However, now with the advent of several new channels, it may be worthwhile to make sure that you are using the most appropriate channel(s). Internet marketing, teleshopping and telemarketing are some of the newer ways of placing the product in the market. The choice of channel will depend on the product and the market segment you are going to cater to.

Advertising and *promotion* need to be planned carefully, as a lot of money is spent in this area. Naturally, a wise marketer would like to consider the best way to promote and advertise his or her product. Due to the special significance of advertising research, it will be discussed at length later on.

Market research can be compared to an army spy network, which gathers information about the enemy so that strategies can be made to defeat the enemy.

Advertising has been defined by the American Marketing Association (AMA) as 'the gathering, recording and analyzing of all data about problems relating to the transfer and sale of goods and services from producer to consumer.'

Market research ultimately builds a databank or creates an information system for the firm to remain proactive in the market place and acquire and maintain its position. Since the market, competition and customer needs are ever-changing in today's business, it is important to have dynamic and continuous market research in the organisation.

Here, we can differentiate between market research and market information system (MIS) as follows:

1. Market research is mainly used for finding solutions while MIS, in addition to finding solutions, helps prevent problems from occurring.
2. While both are continuous processes, market research is usually conducted on the basis of problem solution in the area of marketing.
3. Market research provides external information while MIS is mostly for internal data.

People sometimes confuse market research with marketing research. Let us see how marketing guru Richard D. Crips defines them:

> Marketing research is the systematic, objective and exhaustive research, for the study of the facts relevant to any problem in the field of marketing. Market research is restricted to the study of actual and potential buyers, their location, their actual and potential value of purchases and their motives and habits.

Let us examine the process involved in conducting marketing research.

The significant elements of the marketing research process results can be shown as given in Figure 17.2.

Figure 17.2 The Marketing Research Process Results

	Company's Competitive Strength	High	Medium	Low
Country's attractiveness	High	Invest and grow	Selected investment for growth	Selected investment for growth
	Medium	Selected investment for growth	Plan for slow growth	Plan for slow growth
	Low	Make country specific strategies	Plan for quitting	Plan for quitting

MARKETING RESEARCH OBJECTIVES

From the viewpoint of the marketing manager, the most useful role of market research is in the area of market demand and supply, in ever changing, mostly growing market and increasing competition.

It is important to define market research objectives as the starting point of market research. The accuracy of the objective definition would be the key factor in the accuracy of market research findings. The main objectives of market research are:

1. Demand projection for the product in a given area for an acceptable period like one year. This takes into account the historical demand of past years, market dynamics and changing business environment.
2. Competitive activities, product differentiation, entry barriers.
3. Competitive market share.
4. Brand positions.
5. Competitive prices vis-à-vis brand equity.
6. Advertising and promotional strengths of the competition.

The next range of market research objectives are in the area of *customers needs*, as given next:

1. What product benefits customers are seeking.
2. Product usage with different customer groups, light or heavy usage.
3. Top of the mind recall.
4. Price and quality perceptions.
5. Purchase decision procedures, who are the persons involved in it.
6. Reasons for brand preferences.

Let us see the types of market research being conducted:

1. Exploratory research is conducted to confirm thoughts and ideas. Since these are conducted in small areas, they are low in cost and they take less time.
2. Statistical research deals with frequency of events like purchase action. Such research provides inputs for analysis, as the variables for the research are pre-decided such as how often car batteries are changed in Maruti cars, the time required and brand of batteries being the variables.
3. Casual research is conducted on a case-to-case basis, like the effect of price changes on product sales.

Primary market research or market survey is conducted by collecting data or information directly from the consumers. Before launching on a full-scale survey, which entails heavy expenditure, it is advisable to conduct a sample survey where the survey is conducted in a limited area to test the methods used. Both qualitative and quantitative information can be gathered through market surveys.

The survey can be conduced in several ways as follows:

1. Observation method: If you want to know the number of vehicles polluting the atmosphere in Delhi, you could stand near congested crossing and observe polluting vehicles for a month or

so which would give you enough information as a sample survey. More detailed information would take much more time, many more crossings to observe and persons observing polluting vehicles. Cameras and other signal-gathering devices can be used like smoke detectors, speed sensors for knowing the average speed of vehicles passing through a particular point.

2. Personal interviews: In this method, you with your team meet a number of users personally, ask them questions as per a predetermined questionnaire and get first-hand information from them. The information collected is then used to extrapolate for the entire customer group to get real answers. These surveys are time consuming and expensive, but more accurate. These questionnaire methods will be discussed at length later on.
3. Mail surveys: These are conducted by sending a questionnaire to a number of customers with a request for filling them and returning them to the surveyor. The method is not expensive, but it may not give accurate results, as the rate of getting replies from customers is poor. Also the information which comes in may be skewed as people, when replying to such questionnaires, tend to give inflated figures.
4. Telephone surveys: These are conducted as a low-cost, easy method of gathering information. The problem in such surveys is the fact that people replying to telephone calls may not be the right persons.

MARKETING RESEARCH METHODS

There are two basic methods of doing marketing research:

1. Primary research
2. Secondary research

As normally secondary research is done first, we will discuss it first. Sources of secondary data are:

1. A firm's internal source including its profit and loss statements, inventory levels, sales visit reports and previous market research reports.
2. Incoming staff members who may be coming from competitive firms.
3. Government publications and notifications like those from the DAVP and research organisations.
4. Each trade has its own journals which carry information about the historical business and projections. There are several magazines exclusively on computers, information technology, electronics, cinema, TV, agriculture, science and technology, dress designing, interior decoration and practically every possible area of business in the market.
5. Competitor's balance sheets.
6. Publications of industry associations like FICCI, CII and ASSOCHAM.
7. All India Management Association journal.
8. Trade and business newspapers and magazines like *Financial Times*, *Business Today* and *Business India*.
9. The internet.
10. Market research organisations like ORG Marg which sell market research reports at a price.

11. Sales statistics of the product's dealers.
12. Publications of the Reserve Bank of India and financial institutions like IFCI, IDBI, ICICI and UTI.
13. Foreign government data and international publications help in the area of international business, as also at the introductory stage of products, as they can tell about the rate of product penetration in other countries as a benchmark for India. Of course, other economic parameters, which may differentiate the countries, will have to be kept in mind.

Secondary data, as the name itself suggests, is the data for which somebody else has collected information as primary data.

At this stage it may be a good idea for students to get some secondary market survey data, by gathering information from libraries, where old copies of newspapers, magazines and other publications are available. (You may also list down as many secondary sources as possible from where you can get the data.) Please collect information about any one of the following:

1. Mid-size car price variation in the last three years.
2. Introduction of new brands of washing powders in the last three years.
3. New distribution systems in the area of consumer durables.

To get an idea about the objectives let us take Surf Excel as the product. You can find out the following from your respondents (persons you are going to talk to about the product):

1. Reasons why housewives prefer the product.
2. What types of housewives are likely to use the product?
3. In a given area how many would be using the product?
4. How many more would use it if a cheaper package is used to sell to another segment at a lower rate?
5. Besides package and price what are the other factors that help the buyer to decide in favour of the product?

Once the objectives are well defined, it is important to go to the source of the data.

Focus group research is conducted by inviting around 10 people from the market segment of the product, to get to know their views about the product, its price and channels of distribution. The expert conductor of the meeting will ask them, 'What do you think about the quality of Surf Excel'. With free and easy dialogue, and without the burden of their family's presence, people come out and give their frank opinions.

The questionnaire method can be used for collecting information in the case of Surf Excel. The questionnaire might consist of relevant questions, which the respondents can easily answer. It is the most common and effective way of getting answers as it means direct contact with the user and the marketers get the answers to questions that are baffling them.

The questionnaire consists of questions, which are of a closed type, where options are provided and the respondent has to just give his choice from among the options given. The questions can be asked in the following manner:

1. Yes/No type, for example, 'did you personally select the product?' Yes/no.
2. Multiple choice, for example, 'who helped you in the selection?' Brother/sister/uncle/friend.

3. Answers are given on a five point scale, for example:
    1. I like the Surf Excel very much.
    2. I like it all right.
    3. I barely like it.
    4. I do not like it.
    5. I do not like it at all.

The first part of the questionnaire consists of demographic information about the respondent. A sample is given next:

Name: ________________________________
Address: _________________________________ Phone/fax/e-mail: ________________
Age (below 25/25–40/41–60/60+): ___________________
Income/per month (below Rs 5,000/5,001–15,000/15,001–30,000/30,001–50,000/50,001–80,000/80001+): ____________________________
Family size (below 3/3–5/6–9): _______________________

People find it easier to give a range for age and income rather than giving accurate figures, as it could be less embarrassing.

Questionnaires should be carefully developed, tested through a sample test, modified as required and then used for gathering information. Questions can, at times, influence the answers. Hence, to make them totally objective, they should be carefully prepared. Close-ended questions, like giving answer choices, guide the respondent into the area with which the researcher is familiar. Open-ended questions get the respondents to use their own words and individualistic replies come from such questions. Such questions are useful in exploratory type of market research. However, if time is an important factor, it is better to ask close-ended questions, which can be answered more quickly. Open-ended question could be: 'what is your opinion about Surf Excel as a detergent powder?' or 'what is the first name which comes to your mind when you think of detergents?' or the interviewer shows the respondent an extra clean used shirt and asks, 'what does the shirt remind you of?' The interviewer could also show the respondent a picture of Surf Excel and asks, 'what can it do for you?'

Questions should be as simple as possible, direct and to the point, with no possibility of any ambiguity. The questions should follow a pattern, a logical sequence.

It is time that students prepare a questionnaire for conducting market research for any one of the following products:

1. A car
2. Cosmetics
3. Readymade garments

The student can select a brand and build the questionnaire around that brand.

Testing the questionnaire needs to be done next. For this purpose, a small sample is adequate. It should be from the market segment for which the product is meant. If any question is found to be difficult or objectionable it should be modified or removed. A mix of 20–25 respondents should normally be sufficient for test purposes.

A sample questionnaire is given next:

Sir/Madam,

This is a survey of households with respect to the purchase of small cars. We request you to kindly help in filling the questionnaire giving your ideas, as we attach great value to your judgement in this regard. We thank you in anticipation of your cooperation.

1. Do you have a small car? yes/no
2. If yes, please tell us about its model and make.
3. If no, then please go to the last question.
4. While buying the small car, what were you looking for?
5. What is your opinion of the features of small cars listed below:

Features	*A*	*B*	*C*	*D*	*E*
Design					
Availability of colours					
Horse power					
Speeds possible					
Seats and sitting comfort					
AC/Stereo					
Safety aspects					
Service facilities					
Luggage space					

(*Note: Since this is only a sample many questions have been left out.*)

A—extremely important, B—important, C—somewhat required, D—may be required, E—not needed at all.

6. How do you rate the price of your car, is it, high, medium, low for the car? Did you get value for money?
7. Did you make an outright purchase or did you take the hire purchase option? If you bought the car under hire purchase, which company offered the loan?
8. Who all helped you in deciding about the car? Rate the following as per their importance:
   - Wife/husband.
   - Sons/daughters.
   - Other relatives.
   - Neighbours.
   - Colleagues.
9. Did you see any advertisement of the car prior to purchase and if yes, did it help in decision-making?
10. Some statements are given below. Please give your opinion on the same:

Statement	*Yes/Yes*	*Yes*	*Yes/No*	*No*	*No/No*
Small cars are family cars					
Status symbols					
Good for town run					
Roads not suitable for small cars					

11. About yourself please:
    - Name (optional): ___________________________

- Age (below 25/26–35/36–50/51 and above): ___________________________
- Education level (undergraduate/graduate/postgraduate/doctorate): ______________
- Family income per month (less than Rs 7,000/7,001–10,000/10,001–15,000/15,001–30,000/30,001–60,000/60,001 and above): _________________________
- Purchase decision process: who all are involved in the family?

Thanks for your valuable time!

Students should make a questionnaire with this questionnaire sample only as a guideline.

The second sample of a questionnaire, for a furniture maker, would be as follows:

QUESTIONNAIRE

1. When did you last change your main furniture?
   - Less than one year back.
   - 1–3 years back.
   - More than three years ago.
2. What type of furniture did you buy?
   - Wooden.
   - Wrought iron.
   - Sunmica top.
   - Combination.
3. What style furniture did you buy?
   - Continental type.
   - Indian style.
   - Ethnic.
4. Which member of the family went with you to select the furniture? Wife/husband, brother/sister/father/mother/others/friend/or did you go alone?______________________
5. Why did you select this type of furniture?
6. Did you consult any interior decorator? If yes, then whom?
7. Who were consulted?

Consultation with	*Type of furniture*	*Style of furniture*
Self Brothers/sisters		
Wife/husband		
Advertisements		
Interior decorator		
Dealer of furniture		

8. What were the essential features you sought in the furniture?

Factors	*Most Essential*	*Essential*	*Desirable*	*Not important*	*Least important*
Durability					
Finish					
Range of colours					
Matching sets					
Price					

9. Please give your particulars as follows:
   - Name:______________
   - Age (below 25/26–35/36–50/51+):______________
   - Income per month (less than 7,000/7,001–10,000/10,001–15,000/15,001–30,000/30,001–60,000/60,001+):_______________
   - Occupation:______________

Thanks!

Now it is time to understand, what we are going to survey? Who is the target audience? Defining the market segment and the right geographic area gives us the parameters along which we have to organise the survey. We call it the universe or the population for the purpose of market research. The universe or the total population for Surf Excel would be the entire middle and high-income group of a town.

Organising a market survey for the entire universe can, and usually is, a time-consuming and expensive process. It may take so much time meeting and asking questions from a million people that by the time the results appear, the product itself may become obsolete. Therefore, the survey is done on the basis of a sample of the universe, which is made using well-established techniques.

Sample Size

The larger the number of people interviewed, the better or more reliable the results. However, in practice, it is better to cover a much smaller sample, may be 1 per cent of the universe to get reasonably good results, with less time and money spent. It really depends on how the sample gets selected.

Sample Selection

There can be two ways of selecting a sample: Probability sample and Non-probability sample.

PROBABILITY SAMPLE

It ensures that each member of the universe has an equal chance or probability of being selected for the survey. It helps in understanding the levels of error on account of the sample selected. There are three ways of probability sampling:

1. Simple random sample: Every member has an equal opportunity of being in the survey.
2. Stratified random survey: The population/universe is divided into mutually-exclusive groups such as age and income, and then random samples are taken from each group.
3. Cluster sample: The population is divided as per geographic divisions. For example, Delhi could be divided into north, south, east, west and central zones and a sample taken from each zone on a random basis.

NON-PROBABILITY SAMPLE

As the cost and time involved in probability sample surveys is quite high, market research people use non-probability sample. This can be done in three ways:

1. Convenience sample: The research person selects the persons most easily met for the market research.
2. Judgement sample: The researcher uses his judgement about the sample, which would provide the most accurate answers.
3. Quota sample: The researcher meets with a set of persons in each category.

As an example, in sampling methods, if one person is not available, then no one else takes his place, except in the quota sample method, where the researcher has to find out another person in the same category and meet him.

At times, even with proper sampling, errors creep into the collected data. The reasons for such errors are:

1. A portion of the population may have been omitted.
2. People not included in the sample may differ widely from those interviewed.
3. Substitute interviewees may not be the right ones if you are not able to meet the person in the sample.
4. The respondents find the questionnaire difficult.
5. The respondents may not have enough information on the subject or they may not like to reveal it for some reason.
6. Some questions in the questionnaire may have a bias or slant towards one answer.
7. The interviewer may not be fully qualified to take up the job of getting respondents' opinions.

The researcher must take these into account when analysing the collected data.

When the sample is drawn systematically, it helps as data collection cost becomes lower and it is easy to control.

Planning Samples

Let us plan a sample for EPABX of a large size say which caters to 1,000 lines. Who would be interested in the EPABX?

1. Industrial units, MNCs, large Indian firms, public sector companies.
2. Government departments and offices.
3. Research and development laboratories in the private and government sector.
4. Banks, both Indian and foreign and financial institutions.
5. Universities and educational institutions like the Indian Institutes of Technology (IITs) and the Indian Institutes of Management (IIMs).

As a starting point, let us get lists of all the organisations in the population group with a turnover of Rs 50 crore.

- Pick up 100 per cent of organisations with a turnover of Rs 500 crore.
- Select 20 units from the organisations with a turnover of more than Rs 100 crore but less than Rs 500 crore.
- Select 15 units with a turnover of less than Rs 100 crore.
- Pick up all the government departments and their head offices.
- Likewise select some units from each of the other categories.

To sum up, the sampling technique for EPABX 1,000 can be as follows:

1. Defining the population.
2. Sampling unit would be the firms and offices having population needing about 800 phones.
3. Sample size could be 400.

Task for Students

Develop a questionnaire for the organisations for the EPABX survey.

* * * * * *

According to Philip Kotler, the marketing guru, the characteristics of a good market research are as follows:

- Scientific method: Effective market research is conducted on scientific lines, with formulation of hypothesis, theory, testing and results.
- Creativity: A teenage clothing firm gave video cameras to several young persons, who were asked to film the discos and restaurants where the teenagers went most of the time.
- Multiple-methods: To increase credibility, marketing people use several methods together.
- Value and cost of information: Marketing people have to find out the cost–value ratio of the market research. For example, if the market research is to find the extra sale on decreasing the price to some extent and it is found that the cost of research outweighs the profit benefit, such market research should not be undertaken. For example, if the increase in sales is likely to bring extra profits of Rs 1 million and the research is going to cost Rs 1.2 million, it is not worthwhile to conduct the market research.
- Market research managers must take a close look at the assumptions made by the marketing personnel as they may be lopsided.
- Market research should not use the survey to sell the product. Managers, because of the following reasons, are sparsely using marketing research:
    - When marketing team has a problem with some options and market research does not pin-point towards a solution it makes market research of not much use. Only with a *well-defined problem* can market research provide the right answers.

- When market research personnel are not fully qualified to do the job, they will not be able to get the right answers.
- Market research takes time to be complete in all respects to give valuable market insight. When time is not enough, market research may not give correct results.
- Market research reports sometimes give only indications, trends and not concrete facts, which is not appreciated by the marketing team.

Students should plan market research objectives in view of these points and develop a questionnaire for the same.

Given next is an imaginary discussion between the managing director and marketing manager of a television manufacturing company, who are scanning the Indian TV market to enter the same after achieving big success in Western markets like Europe and the US.

Marketing Manager (MM): We have seen the growth of Indian's TV market. In the last three years, it has been growing at a steady rate of 5 per cent, which is much better than the figure of –2 per cent in the developed world. However, there are a number of MNCs in the field like Thomson, Sony, AIWA, Samsung, LG and a number of Japanese firms, such as Toshiba, are well entrenched through selling kits for assembly in India. Now we have to plan our strategy for entering this growing, yet difficult market. What are your ideas on the matter?

Managing Director (MD): I believe there is still big room for players like us who believe in their product and customised service which no one can provide. You should be trying for at least 7 per cent market share in the second year of our operation.

MM: I would like to organise a market survey to know what the market wants and who would buy our rather highly priced products.

MD: By all means get your market information updated, keep me informed and let us plan our marketing strategies based on your information.

Following is the brief the MM gave to the market research agency:

Our information on Indian TV Market is as follows:

In 1986, the market was of 4 million TV sets in the country. More than 75 per cent of these sets were black and white versions. Colour TV came to India as late as 1982. It was only after the liberalisation of economy in 1991, that the demand started to grow rapidly. By 2000, 6 million colour sets were being planned for sale. The growth of manufacturers has been rapid, too.

The growth and competition has brought several changes in the product offerings. Multi-channel, remote-operated TVs are now available. Several firms are making colour TVs. Innovations like flat, square screens, picture-in-picture, ambience light adjusters, virtually automatic TV sets with memory databank of information are in the market. Some features may be yet trying to find their feet in the market, due to concepts being new and expensive.

You have to find out which of the features and internet access TV, would find a reasonable demand in the market. We want to put the best features in our sets and get a 7 per cent market share in the second year of our operation.

Please organise a market research and send your recommendations within a period of three month covering the north Indian markets.

The market research report says:

1. TV manufacturers are coming out with latest innovations and they try to educate the buyers about the same. Most of the time the customers are unaware of the benefits that the innovations provide and may have a little reluctance about purchasing such products that are difficult to use.
2. The buyers commonly understand picture and sound quality.
3. Price, warranty and after-sales service play an important role in purchase decisions.
4. Psychological aspects such as looks, foreign collaboration and brand equity, too, have their value.

Since the price of TV sets is quite high, TV purchase is a high-involvement purchase. Opinions of other users, friends, neighbours, colleagues and sometimes TV dealers are sought. With some 20 brands to chose from and each brand having four–six models, the task of decision-making is a rather onerous one.

The following features of colour TVs were tested on a scale of 1–5 in several areas in northern India and the results obtained are:

Feature	*Mean score*	*Position*
Picture quality	5	1
Sound quality	5	2
After-sales service	4.9	3
Price	4.2	4
Brand equity	3.8	5
Appearance	3.3	6
Foreign collaboration	3	7
Picture in picture	3	8
Internet capable	3	9
Dealer's location	2.8	10
Friends recommendations	2.8	11

As can be seen, the customers place a good deal of importance on picture and sound quality, followed by after-sales service and price. Distinct features do play a role in purchase decisions, but it seems that their relative importance is less due to the latent fear in the minds of buyers that they may be paying a high price for features they may not be able to use due to their being too hightech. Hence, the conclusion can be drawn that while new features will bring more business, as they would certainly differentiate the products, a lot of concept selling, as also training in usage would be required before the benefits can be cashed in on.

Advertising for creating and enhancing brand equity is a must, as brand plays a major decisive role in purchase actions of the customers.

Areas like built-in stabilisers are not in consideration at all as most TVs have this feature. In the same way, remote-control feature has become common and hence it ceases to be a differentiating point.

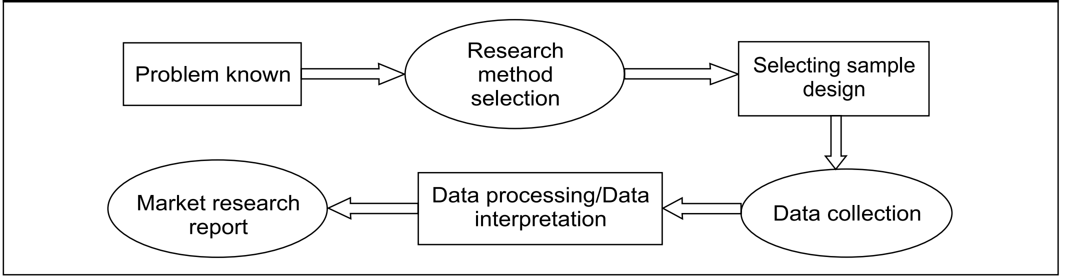
Advertising, too, has become the done thing and at best, it is a negative factor. In other words, less or no advertising would mean poor quality marketing efforts.

Market research should be *avoided*, if enough *time* cannot be given for the research. Also, if the *budget* does not permit a thorough enquiry or if *information* is not going to be sufficient, market research can be avoided. If the marketing people want to get the research done only for having their *decisions endorsed*, it need not be undertaken.

On the contrary, the marketing people can get valuable inputs from market research like demand forecasting, product specifications, advertising and promotion plan endorsement, locating new markets, market segments, finalising distribution channels for optimising their effectiveness. Market research can also help in making strategic plans for the firm.

The market research process can be shown in a graphical form as given in Figure 17.3.

Figure 17.3 Market Research Methodology



For instance, if the management problem is of poor market image or low brand equity, market research would find out what is the exact brand equity of the firm with the target market segment. If the management wants to know if the advertising budget is adequate or not, market research would try to find out the effectiveness of advertising. And if the marketing team wants to know the customers of the product, the market research would find out the target customers of the segment.

If sales are stuck in recession, market research helps to find out the price elasticity of the product in the selected segment. For new product development, market research finds out if a new product needs to be developed. If yes, with what specifications.

DATA PROCESSING AND ANALYSIS

In data analysis, it is important to understand that based on application, the scale of measurement is made. For instance, when you apply classification of sex, geographic area or social class, when objects are either identical or different, a *nominal scale* is used. If ranking or preferences or class standing are the applications then objects could be smaller or larger. Here, *rank order scale* is used. For measurement of altitude, temperature or between things where the intervals between adjoining ranks are equal, an *interval scale* is used. For sales, income and the like, a *ratio scale* is used.

ADVERTISING RESEARCH AND DAGMAR

We have seen that in order to be focused on a firm's overall goals, the marketing department has to play a vital role as the revenue earnings of the firms are mainly from selling of products. Hence, once the firm's goals have been formulated the marketing and advertising people set their own goals and objectives.

There is a relationship between advertising and marketing goals as the advertising efforts can be measured. The full form of DAGMAR is: Defining Advertising Goals for Measured Advertising Results.

An example would make the theory simple to understand:

There are 20 million scooter owners in India. Out of them, only 3 million accept that a four-stroke scooter engine is more powerful and fuel efficient. In two years time, through advertising, this figure will be increased to 7 million.

The simple job of advertising is to:

1. Inform the customers about the firm's products.
2. Focus on the benefits the customers would derive from using the product, in order to motivate them into buying the same.
3. To ensure that the firm's customers stay true to the firm for repeat purchase. Advertising is done to remind customers.

The objectives of advertising have been discussed earlier. With the changing business environment and product life cycle shifts, the objectives keep moving, too. The DAGMAR theory needs constant updating and vigilance to be of real value.

Hence, DAGMAR becomes effective only when there is continuous advertising research conducted as per a firm's requirement.

ADVERTISING RESEARCH

Advertising research is being extensively used by both advertisers and advertising agencies to pre-test their campaign, evaluate the media's effectiveness and understand the market segment best suited for the firm's products.

Most firms arrange for market research for obtaining the market segment's viewpoints and preferences about products in their category. These researches tell about product acceptance levels, brand awareness, top of the mind recall, as also modifications needed in products. A significant part of market research is advertising research, which concentrates on what type of advertising campaign would be most suitable for the product, the ideal time for the product launch and limitations of the product. Advertising research tries to correct any aberrations in the selected market segment for the product.

Advertising research tells the advertisers about the type of creativity and the type of language—including slang and local dialect—would stimulate the target segment.

Take the example of an advertisement about an air compressor. The advertisement talked about ozone layer depletion and the need for having clean air. It also hinted at the specific design of the compressor without talking about its usage. Technical managers seeing the advertisement thought that it was some sort of air cleaner for homes, especially as it featured a pretty girl waving her hand. After the research findings became clear that the message of the advertisement was not clear, another campaign was launched giving technical details with photographs of the compressor section by section, which attracted the attention of technical people who asked for more information about the product.

It will be difficult to find an advertisement of a perfume, which gives its chemical formula. Instead, perfume advertisements talk about love and feeling of euphoria created by the perfume. Advertisements are the result of the research conducted which says that in personal care products, people are interested in what it would do to them. It is said that nobody buys a product; they buy the performance promised or given by the product.

Advertising research results thus show the advertiser how to place correct advertisements at the correct places and at the most appropriate time making them both effective and efficient. How is the research conducted? Let us understand in some detail:

1. Testing research methods is done by having a *preliminary research.* It calls for a small sample size and it only validates the reasons, objectives and creativity of the campaign.
2. After the preliminary research, advertisers are interested in finding out the likes and dislikes of the customers and the reasons for the same. Research is conducted by doing a primary survey by *interviewing* customer groups. Such a research is similar to market research, as information needed is akin to the one required in market research.
3. Advertising research can also be conducted by *observation***.** Researchers stand near shopping malls and observe the shoppers, their likes and dislikes, their behaviour pattern. Such a researcher has to objectively note down his observations without prejudice, otherwise the deductions would be entirely lopsided. It may be useful to note that watching/observing customers in shops for collecting data without their knowledge may not be purely ethical. Also, asking questions may look like selling gimmicks rather then advertising or market research.

To find out why people stay in a particular hotel the research would ask questions as follows:

1. Do you stay here for its location, its food or its ambience?
2. Do you stay for the health club and conference facility?
3. Do you stay here because it comes within your budget?
4. Do you find service a favourable factor here?
5. Is the staff cordial enough?
6. Have the hotel helped you in any crisis situation?
7. Does the hotel provide extra care and benefits to regular customers?
8. How is communication system of the hotel?
9. Does the room service give prompt service and does it have a good range of dishes?

The next type of research can be termed as *idea research* where an attempt is made to understand how some changes in an advertising campaign would affect the result as far as the advertising objectives are concerned. For example, would increase in advertising size improve its acceptance or would a change in its frequency improve top of the mind recall?

Methodology

Define the research objective, list out the problems for which answers have to be found: Has the market acceptance increased for the new Maruti 800 car? Does the new detergent help in catching the mood of the housewife better with its non-caustic chemical formula, which is easy on the hands? While framing the questions, it is advisable to make them short and unambiguous, to ensure the right response. For getting response on relative likes and dislikes, it is correct to give just five options:

1. Like the product greatly, will surely buy it.
2. Like it and may buy it.
3. The product is just like others, may or may not buy it.
4. Do not like it and it is unlikely that I will buy it.
5. The product is bad and I will never buy it.

Secondary research data is available from a variety of sources, including the firm's own records, trade publications, government publications and from research firms like ORG Marg. Secondary data is valuable information and its analysis can give the right direction for marketing and advertising. First, it takes less time and effort. Plus it could prove if it is not outdated.

Finding the Right Sample Size

Imagine sending teams to contact the entire population. Even a single metropolitan city like Delhi has a population of 1.4 million. It would be an exercise in futility because by the time the research report comes out, the problem or the situation that triggered the research would have disappeared. Hence, only a carefully chosen sample is used for getting the data. The sample selection is done on the following lines:

1. Probability sample: Here each person from the population (also known as the universe) has known opportunity of being part of the sample, though not necessarily an equal chance.
2. Simple random sample: This is also a probability sample except it is where each member has an equal opportunity of being included. If there are 35,000 lady motorists in Delhi and you want to have a sample of 350, pick up every 100th lady motorist.
3. Stratified random sample: This would require to further sub-divide the lady motorist into age groups—18–25, 26–40, 41–60 and above 60. Then you choose an equal number from each age group as your sample.
4. Cluster sample: Segregating the universe geographically could make cluster sample. Equal number of lady motorists from north, south, east, west and central Delhi would make the cluster sample.
5. Non-probability sample: This is where each sub-category is given a specific equal number. Hundred graduates and 100 postgraduates would comprise the quota sample, as it is called.
6. Judgement sample: This is when you decide the sample members on the basis of their value to the research.
7. Convenience sample: This is when you go to the people who you find convenient to contact.

The non-probability sample leaves a margin of doubt whether the sample is truly representative of the universe. Selecting a sample by itself is important, as it helps in understanding the results of the research better. Research does not provide results or facts, it only gives tendencies. Sample size determines the accuracy levels. At times it is important to sacrifice accuracy for speed and budget.

Advertising research can be carried out *before the launch* of the advertising campaign. It helps in media planning and copy testing along with test marketing the product to be advertised. Advertising research carried out *during the campaign* focuses on dealer audit, sales analysis and customer's response based on contests or reply cut-outs given with the advertisements for customers to fill in their comments and send back to the advertiser.

After the campaign is over, as per DAGMAR, *research is done to assess the effectiveness of the campaign* on the parameter of the objectives of the advertising campaign. At this time, consumer panel surveys are conducted for structured responses. Consumer panels are predetermined group of people, mostly of one geographic and demographic segment like lady members of a kitty party. These persons are in the know of their task of making assessments of the campaigns and inform the advertiser about their views.

Selecting research sample needs knowledge of the market, the universe and quantitative techniques. Gathering information or data collection can be done by in-depth interviews where the respondent (one member of the sample chosen), is asked questions from a well-structured questionnaire. The respondent can give his own views. A lot of time is given for each question. The interviewer must be adept at organising such interviews and later on in making a coherent and lucid report.

When the interview is conducted in a well-accepted and known group called the focus group, the same type of in-depth incisive questions can be asked. The problem, which can arise, is conflict within a group that has diverse views. The questions can be of two types: simple *straightforward types* where the answer can be *yes* or *no*. However, when it is important to understand the mindset of the respondent, it is better to use *projective* questions, which can be vague and which would evoke emotional, sentimental and creative answers.

- What product do you associate with Hrithik Roshan?
- When you think of colour, who do you think of?
- Sixty years young, climbing the staircase?
- Just do it. Which product do you associate with this statement?

These are just a few samples. Some more are:

How do you rate the following hotels in Delhi:

1. Maurya Sheraton
2. Taj Mansingh
3. The Oberoi
4. Hyatt Regency
5. Taj Palace

The way I look is important to me:

1. Strongly agree
2. Agree
3. Neutral
4. Disagree
5. Strongly disagree

Surveys, observations and experiments with the help of questionnaires, checklists and plans help in completing the advertising surveys. Then comes the important aspect of analysis and report writing.

Research, as stated earlier, must be used or else the time and money spent on it is a total waste. Research results enable firms in reassessing their goals on the basis of new opportunities, in confirming the target segment and creating a useful message for the segment. Advertising results can be measured by simple brand recall tests with the target segment. These can be aided or unaided recalls.

Which is the best toothpaste in the market?
Which blue and red bottled drink gives most satisfaction?

Research confirms the strong views held by firms. If there is a major divergence, then a re-look is required at the objectives, sample and methods adopted in the research. Next, a very apt example of how research could go wrong is given.

> A firm planned to start the manufacture of fax machines in India in the 1980s. The task of finding out the demand and product acceptance levels was given to an outside research agency by the firm. The result was flattering inasmuch that 80 per cent of the respondents were looking forward to buying a fax machine. When the note was sent to the Department of Telecommunications, Government of India, it came back saying that the telecom network was not efficient enough to make fax a success. (It was only in the late 1980s that digital electronic exchanges, fibre optic cables made the telecom network good enough for faxes to operate.)

The research should make you aware of the consumer's behaviour towards competitive products.

Advertising research is a part of marketing research, confined to development of advertising plan, creative work, market segment and the best possible media, which would cater to the segment. The research should increase the effectiveness and efficiency of the advertising campaign. Data collection is done from primary sources as also secondary, already available sources. In primary data collection, it is important to select the sample correctly. The research steps are:

1. Setting up the goals for the research.
2. Finding the sources of secondary information/data.
3. Analysing secondary data.
4. Planning sample for primary research.
5. Data collection.
6. Data analysis and report writing.

The advertising campaign is pre-tested and post-tested to ensure that it works.

Guidelines for Making a Questionnaire

1. Ask basic questions about respondent's name and address. While asking his age and income, give a range like age between: 18–30/31–45/46–60/61 and above. Income between Rs: 3,000–7,000/8,000–15,000/16,000–30,000.
2. Questions with two possible answers: Did you buy the watch yourself, yes or no?
3. Multiple choice questions: Who advised you to buy the watch, your father, uncle, sister or cousin?
4. Likert scale questions: The watch is considered best value for money. Tick the answer you consider right: (*a*) strongly disagree; (*b*) disagree; (*c*) neutral; (*d*) agree; (*e*) strongly agree.

(*continued*)

5. Differential scale: The hotel is: large/small; modern/outmoded.

   The hotel staff is experienced/inexperienced; courteous/disinterested.

Questions on importance of the product can be put on a scale of extremely important, very important, important, not very important, not at all important.

Intention to buy can be asked on a rating scale as sure to buy, perhaps, may not, will not and will never buy.

Open-ended questions like, 'what do you think of our hotel?' Can be answered by the respondents in any way they like. Associations can tell you about the aided recalls, like the respondent's recall about 'welcome' and 'hotel'.

International Marketing Game 17.1

1. Sampling method is important in advertising research. Discuss some methods for planning the sample.
2. Besides questionnaires are there other methods for gathering information. Discuss.
3. What type of methodology should be adopted for advertising research?
4. Describe some possible objectives of advertising research.

QUESTIONS FOR DISCUSSION

1. International marketers need to understand the political, economic and cultural ethos of host countries. Discuss the role of marketing research in this area.
2. How can the demand of a product be assessed in the international market?
3. What are the differences between domestic and international marketing?

18 Distribution of Goods Worldwide

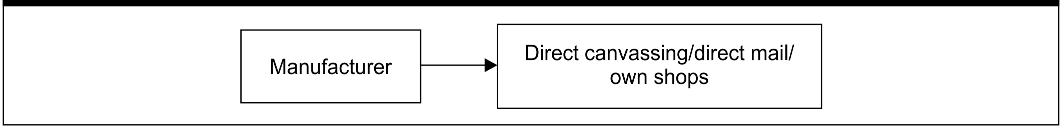
AIMS AND OUTCOMES OF THE CHAPTER

Once a firm has completed its marketing research and decided about the product(s) it wants to introduce in the market, having selected the niche market, the firm needs to ensure that its customers and prospective customers are aware of the product and its use, and the product is available to them at convenient shops. The first objective of communicating with customers is done through personal selling and advertising. The second is done through organising a proper distribution system. In this chapter, the distribution methods available to firms are discussed. Students will learn about the different methods of distribution and the process of selecting the most appropriate one for the selected countries. The firms can choose the method best suited to their needs taking the product and its service requirements into account.

INTRODUCTION

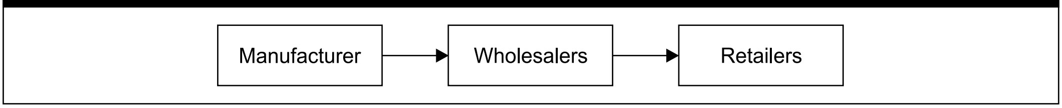
For manufacturers there are two basic distribution systems. The first one is as shown in Figure 18.1.

Figure 18.1 Simple Distribution System



In this method, the manufacturer sells by personal selling, through direct mail or from the firm's own shops (Bata, for instance, sells its shoes through its own shops). In the second method, there can be a number of intermediaries as shown in Figure 18.2.

Figure 18.2 Next Stage Distribution System



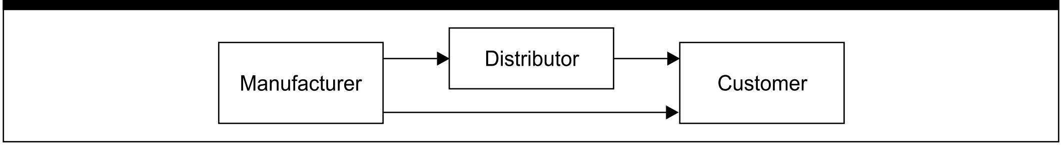
In the indirect method, the simple method starts from manufacturers who sell the product to wholesaler, who in turn sell it to retailer for sale to the ultimate customer. At each step, some amount of money is given as profit which adds to the selling price of the product to the customer. In most cases, the manufacturer follows the set pattern of product distribution as per trade practices or how the competitors are distributing their products. However, blindly following competition is not the answer, as competitors may be having different scales of production or any other basic difference with the firm. Innovations in distribution methods are taking place and firms should take advantage of the new methods.

Let us examine the two broad categories of products and their presently accepted distribution patterns.

Industrial Goods

Figure 18.3 shows the distribution patterns for industrial goods.

Figure 18.3 Industrial Product Distribution System



As can be seen, in industrial goods, the sale is made either directly to the customer or through a distributor. The sale of capital goods is usually made directly to the customer because of the following reasons:

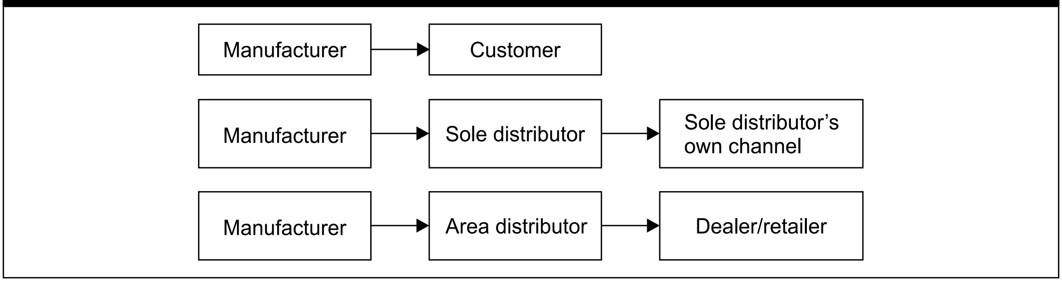
1. Technicalities have to be explained to the customer, which are best done by the manufacturer.
2. Mostly large sums of money are involved and the customer wants the best price without having to pay for the middleman's commission.
3. Installation and commissioning of the equipment is involved, which is best done by the manufacturer's engineers.
4. After-sales service is complicated.

In the case of the sale of raw materials and components, the manufacturers sell through a distributor network the size of which is finalised taking into consideration the geographic area that needs to be covered by the manufacturer.

Consumer Goods

These are usually sold through the distribution channels as shown in Figure 18.4.

Figure 18.4 Consumer Goods Distribution Channels



Very small firms, who have a limited market, like bakeries, may resort to direct selling to their customers. Very large firms have sole distributors with their own network of dealers and retailers. We will discuss the merits and demerits of each of the methods of distribution and some other methods as well.

Other distribution methods include the following:

1. Own shops
2. Franchise outlets
3. Mail order
4. Catalogue sales
5. Web marketing
6. Agency operations
7. Stockists
8. Consignment agents

Own Shops

Many manufacturers like Bata, Usha and Singer have their own, that is, company-owned sales outlets (shops). These shops ensure that the products are available to the customer in a good quantity, of the right quality and at the right price. Besides, as the shops only keep the products of the firm, control on sales can be more effective as compared to the sales made through dealers and retailers, who handle competitive products as well. The firms mentioned earlier realised the great asset they had in their own shops and as the firms had only a limited range of products, the shops, situated mostly in prime locations, were not being fully utilised. These firms, therefore, added complementary products and made their shops as sales outlets for the complete range of products in their particular fields.

Franchise Outlets

Manufacturers often give legal rights to an independent business entity to run the franchiser's business (under some controls by the franchiser, like quality control). The franchisees help the manufacturers to add to their business, have bigger geographic coverage and increase their market share. MacDonald's and Pizza Hut are two examples of manufacturers who have used the franchise system effectively.

Mail Order

Some products like *Reader's Digest* magazine are sold through mail order. Customers are requested to send their orders directly to the publishers, who send the product directly to the customers.

Catalogue Sales

These are a variant of mail order. In this case firms dealing with a number of products get colourful and attractive catalogues made describing the products. These catalogues are then sold or distributed to a large number of prospective customers, who select products from the catalogue and place order with the firm. The firms have to ensure that the quality of the product sold is the same as mentioned in the catalogue; otherwise, the negative publicity generated by selling products of an inferior quality will spoil the reputation of their business.

Web Marketing

The spread of computers and internet has opened the doors for marketing or selling on the internet. A number of advertisements can be seen on every website. The customers can place orders on the internet itself and make their purchase using credit cards. The sellers will surely dispatch the product against the order. Since there are no expenses on having to maintain shops, an effective reduction in prices can be made. The only danger of these types of sales is that the customer does not get to see the product before they receive them.

Agency Operations

Agents are independent businessmen who help manufacturers in selling their products. The agents obtain orders from customers, which they forward to the manufacturers. On the conclusion of the transaction, the agent gets an agency commission for his efforts in getting the orders. Agents can be both for buying and selling products. They have long-term agreements with manufacturers and they operate within the terms and conditions of the contract. Their task includes negotiating the sales contract with the buyers on behalf of the manufacturers for which they have the authority. They build long-term relationships with the buyers who benefit as they get consistently good products at uniform prices.

Stockists

Manufacturers sometimes appoint stockists who are businessmen with storage space. The stockist's job is to keep stocks on behalf of the manufacturer and dispatch the same to distributors and retailers on receiving instructions from the manufacturer. They get a commission from the manufacturers for the use of their storage space and their efforts in making dispatches. Normally, they are not involved in the actual selling effort of the firm.

Consignment Agents

These businessmen are required to keep stocks of the manufacturer's merchandise on their behalf and as and when they are able to sell the products they send the money received to the manufacturer. For their efforts they are paid a commission on sales. These types of agents are especially needed when a product is introduced in the market and the channel members are not sure of its saleability.

Unlike in the first half of the twentieth century, when the manufacturer decided the channel as per his convenience, now the channel selection depends mainly on the market survey report, which tells the manufacturer, *how* the customer wants to buy the product. The main criteria can be summed up as follows:

1. Customer reach for the channel.
2. Customer convenience of buying.
3. Service facility needed by the product and its availability with the channel.
4. Number of products available from one manufacturer for the channel.

Customer Reach

Sales orientation in the first half of the twentieth century was mainly on manufacture. Once the product was in the market, it was sold. Competition was almost absent for most products. Some products enjoyed total monopoly and the manufacturer could set his terms of sale. For a majority of products, however, there were a few manufacturers. In other words, there was oligopoly and the manufacturers could join hands and control market prices. Later on, in order to avoid the situation of cartel formation, the Government of India set up the Monopolies and Restrictive Trade Practices Commission (MRTPC).

Today, in the beginning of the twenty-first century, manufacturers are facing severe competition in practically all products and the manufacturer who can place his product within easy reach of the buyer definitely gains advantage over other competitors.

Taking this view, Eureka Forbes has started personalised selling of its products, which include consumer durables like vacuum cleaners and water purifiers. The sales are made by the firm's sales-persons visiting the homes and offices of prospective customers with samples of the product. They give live demonstration to convince the customers and obtain an order.

Many retailers have resorted to home delivery systems, including for consumer durables. The customer can buy a product by placing an order over the phone or on the internet and the product is delivered to his home. Such purchases are paid for either by cash or through credit cards.

Customer Convenience Buying

In every residential locality, convenience stores or retail outlets have come up. These shops keep stocks of a variety of products of daily needs, which the residents buy. As the shops keep competitive products they sell the products as per the following plan:

1. Brand as per customers demand.
2. Brand on the basis of sales commission they get from the firm. If the customer has no particular choice the shopkeeper will try to sell such a product where he gets maximum profit.
3. In case the shop does not have the brand the customer demands, the shopkeeper will try to convince the customer to buy the brand in stock.

No manufacturer can afford to avoid retail shops, which cover the convenience criteria for the customers.

Sales with Service

Several consumer durable products require service to be provided to the product on either a periodic basis, as is required for automobiles, or once in a while, as is required for air conditioners. Retailers who can provide such service should sell all such products, which need regular service. Maruti car dealers are selected only on the condition that they can provide proper service for the cars sold.

In fact, Maruti provides technical training to the engineers of their dealers. The dealers have to maintain stocks of spare parts and accessories, which enables them to provide timely service.

Multiple Product Manufacturers

When one manufacturer can supply a variety of products needed by one type of customer, Hindustan Unilever being a good example, then they need to have distributors who can invest in inventories and prime locations for their retail sales outlets.

We will now discuss the value of wholesalers in the distribution system. Manufacturers need retailers most, as they are the link between the manufacturer and the consumer. However, manufacturers find it difficult to sell to retailers directly, as they need a small quantity of the products only. Selling to numerous retailers would involve huge amounts of billing activity and several dispatches to a variety of locations needing enormous manpower. Wholesalers buy in bulk and hence selling to wholesalers reduces these activities. Bulk packing can be used for large consignments. Wholesalers, also called distributors, perform the following functions for the manufacturer:

1. Buy in bulk.
2. Making 'small customer size' packages.
3. Buying a variety of products and making matched sets as required by the customers like soap and soap dish, toothpaste and toothbrush.
4. Stocking products in large quantities ensuring that the dealer is never out of stock without having to invest in a large inventory himself.
5. Low cost transport to retailers can be provided as for a small quantity they need not hire trucks. They can use tempos, three wheelers and hand trolleys.
6. Provide information regarding activities of the competition, new products in the market and change in prices of products. They can virtually be the market surveyors for the firm.
7. Provide credit, loans and leasing facilities (either themselves or through a leasing agency) to the customers.
8. Share in the advertising and promotion arranged by the firm.

As many firms resort to direct selling to the retail trade and sometimes to the customers, wholesalers may become obsolete in the future. Wholesalers have been performing important tasks in the business of the manufacturers, the most important being that of making bulk purchases. It is for this reason that the wholesalers prefer to sell products of only one manufacturer. They may take up the sale of another manufacturer if there is no competition involved. Furthermore, wholesalers take up products from other manufacturers if they complement their main product either as an accessory or an original component. The exclusivity of product sale is legally not appropriate under the MRTPC Act. Most firms, however, keep the exclusivity clause in the agreement as unwritten.

In order to survive in the distribution race, wholesalers/distributors, have started to re-focus their strategies as follows:

1. Distributors/wholesalers divest themselves of small jobs and concentrate on the distribution as their main line of business. It provides the required focus to the task of distribution.
2. Distributors/wholesalers take up product servicing as per standards laid by the manufacturers. They invest in service equipments, service consumables and stock of spares required for providing quality service to the customers.

3. Distributors/wholesalers take up other customer-oriented activities like providing leasing options to the customers, through their retailers.
4. Distributors/wholesalers get their people trained in servicing of products and in sales techniques. They impart this training to the sales and service people of the retailers to enhance value addition to the products.
5. Distributors/wholesalers help the manufacturers in meeting their sales targets.

RETAIL BUSINESS

The retail business really came of age in the last decade of the twentieth century. Retail shops have grown from being mere storage depots in the first half of the twentieth century to supermarket chains. Historically, retailing started as sales by pushcarts, carrying products of daily use. The cart puller was also the salesman who vended the products in residential areas. In the morning, the housewife found the bread and butter seller at her doorstep. These salesmen hired or purchased shops with the earnings that they saved, in the same localities where they vended their wares. While they lost on mobility, they gained in larger product range and bigger clientele. Some shops became almost like morning clubs where friends would meet for making purchases and exchange gossip and news. Despite the entry of supermarket chains, these shops have survived as they do provide a service to the local customers. In fact, even handcarts have remained as retail links. A large variety of products, such as vegetables, are still sold by people using pushcarts.

At present retail has not lost its importance in the least. In fact, there have been maximum innovations in the retail business as discussed next:

1. Supermarkets—The one-stop shops: These shops are really multiple shops in one with a large variety of products, sometimes complementary and sometimes totally dissimilar in nature and use. The common factor in all shops remains the type of customer who visits the shops. Nowadays, shoe shops sell sportswear, woollens and leather garments in addition to shoes. Gasoline stations have general merchandise shops from where patrons who come to fill their cars with fuel can also purchase gift items, food products and novelties to name a few products. Service centres have restaurants where people coming to get their car serviced can spend their time having a meal or snacks. Big departmental stores too have small eating areas and toilets for the shoppers. Some have also added children centres where children can have a good time while their parents shop.
2. Discount stores: These are coming up for several manufacturers. Products, which have some small defect, are sold at a discount at these shops. Manufacturers use these stores to fight competition. While heavy discounts can be offered on practically good products, no price war can be started on this basis.
3. Boutiques: These have sprung up in most cities to cater to the elite of the town. These shops keep the latest fashion garments and other accessories. The products are expensive as the customers are not price conscious. These customers are looking for unique things as status symbols.
4. Superstore chains: Superstore chains have come up to provide the same range of products, at the same prices and using similar selling techniques in different cities. Normally, the customer has one such store near his house and he does not have to travel long distance to his supermarket for shopping. Marks & Spencer's, C&A in the UK are such chains. Now Delhi, too, has its own Marks & Spencer shop. With large volume business, they offer competitive prices to the customers.

The small shopkeeper with low volumes finds it difficult to compete with these giants. These chain stores dictate their terms to manufacturers as they hold large volume business. They, at times, get the manufacturers to supply the product with the chain's brand name rather than selling the product under the manufacturer's brand name.

5. Shopless shops: These sell products to customers through television shops, computer advertising and telephone marketing. Television has time slots during which products are shown and their use is demonstrated. The customer is then requested to place his order on telephone for the delivery of the product and the customer makes his payment upon delivery. The internet too is used to give product demonstrations and orders are solicited through the internet and payments are made via credit cards. Telephone calls are used by telemarketers, who give their sales pitch on the telephone to carefully selected, likely customers. These calls are followed by visit of salesman to procure the order on the basis of telephone calls, which, to an extent, conveniences the customer into buying the products. With low overheads, these sellers can offer low prices and one wonders if the days of supermarkets are numbered.
6. Retailers are now using the latest electronic products like computers for billing, inventory control, building customer database and electronic anti-theft and surveillance devices. Bank retailing has gone to the extent of salesman-less sales through automatic teller machines—the ubiquitous ATMs.
7. Manufacturers' own shops: Thus retail system has been tried by several manufacturers in India, like Usha, Bata and Singer. These shops have the advantage of providing genuine products at company prices. Customers can get the entire range of products—the full variety. However, if the manufacturer's range of product is not large enough, the shop will not be a success as the customers visit shops for a range of products where they get to see the full variety. A manufacturer of only toothpaste, handkerchief or boot polish cannot sustain a shop meant just for a single product. It is for this reason only that Usha, Bata and Singer have all started selling a complete range of products even on a buy–sell basis. Shops diversify their product range by adding similar products or products which go as accessories with their main products to take the synergic benefit of add-on products.

It can be seen that each type of distribution method has some advantages and some disadvantages. Depending on the product range, product market segment, the products stage in the product life cycle (PLC) and the capacity of the manufacturer to produce, the channel is selected.

1. Sole distributor: They work on volumes of business with low margins of profit. Their market penetration is low as they depend on their retailers. With a large operational area, they tend to lose grip on the market.
2. Area distributor: They cover a certain geographic area and sell through dealers and retailers operating in their area. Usually area distributors work for one manufacturer only. At least they do not deal in competing products. Area distributors tend to sell in the area of neighbouring distributors encroaching on the geographic boundaries fixed and this creates problems in terms of 'sales commission' that is given only to one distributor.
3. Non-exclusive distributors: They deal in products of a number of manufacturers but they avoid having competing products.
4. Stockists: They keep the manufacturer's stocks for giving to the dealers or retailers against authority from the manufacturer. For this purpose they are paid a commission. Stockists help the manufacturers in faster supplies of products to retailers, as they are located near the markets, while manufacturing units could be quite far off.
5. Consignment sale stockists: They sell the product to the retailers after receiving the goods from the manufacturers without paying for the goods. Once they sell the goods they send the payment to the manufacturers.

To sum up, the distribution method choices are as follows:

1. Sole distributor .... Dealer .... Retailer ....A
2. Sole distributor .... Retailer ....B
3. Stockist .... Retailer C
4. Consignment agents .... Retailer .... D
5. Agents .... Retailer .... E
6. Direct mail .... F
7. Internet .... G
8. Catalogue sales .... H
9. Franchisee I
10. Own shop .... J

We will now attempt to give weight to each of these distribution methods on the following basis:

1. Coverage of the designated area.
2. Concentration possible in the area.
3. Control of the manufacturer on the method.
4. Cost to the manufacturer.

Table 18.1 gives some idea of these factors, although they may vary from product to product and area to area.

Table 18.1 Analysing Distribution Channels

Distribution	*Coverage*	*Concentration*	*Control*	*Cost*
A	Wide	High	Low	High
B	Medium	Medium	Low	Medium
C	Medium	Low	Low	Medium
D	Medium	Medium	Medium	Medium
E	Wide	Low	Medium	Medium
F	Wide	Medium	Low	Low
G	Medium	Low	Low	Low
H	Low	High	Low	Low
I	Medium	Medium	Low	Low
J	Low	High	Top class	Medium

Note: The alphabets A–J in column 1 denote the distribution method choices mentioned earlier.

These values keep on changing and marketers have to understand the market dynamics before finalising their distribution method.

In several product groups and markets, with the help of direct selling catalogue and internet sales, the middlemen as these intermediaries are called, have been eliminated. They are regarded by a section of society and business community to be only moneymaking bodies that do not perform any worthwhile task. The distribution chain adds to the costs of sale, which, ultimately the customer has to bear. As most middlemen do not perform any value addition function, these could be reduced if not totally eliminated.

However, it must be understood that to remain in a competitive market, the middlemen have learnt to provide value added services to the customers like leasing, hire purchase options and product servicing. Thus, they give the manufacturer the chance of concentrating on production, product development and innovation, advertising and sales promotion.

It is therefore important for each manufacturer to weigh each of his concerns and then opt for a particular method of reaching his product to the people for whom they are meant and are produced in the first place, the customers.

Manufacturers like Eureka Forbes have eliminated the middlemen altogether, while others with similar product ranges are still using the time-tested methods. Personal selling like what is done by Eureka Forbes helps in building relationships, but it calls for huge investments in manpower, their training and area coverage.

LEASING AND HIRE PURCHASE

The twenty-first century has seen a great revolution in television and information technology in India. This has led to much greater awareness of consumer products among people. They think of buying high-cost products, which they may not be able to afford. Consumerism, keeping up with the neighbours is the trend today. Manufacturers and sellers both not only encourage the trend as it helps them sell more, they also facilitate the buyers by giving them deferred payment options. For financing purchase by customers, the sellers are taking the help of finance leasing firms. Now buyers can buy cars, houses and other luxuries without having ready cash for the purchase. They can get the money from the leasing firms, on interest. The advantages of lease purchase are:

1. As no money is to be paid, or only a token amount is to be paid, the buyer tends to buy more. Many times he buys things that he really does not want.
2. The buyer buys more than he needs.
3. The buyer can possess items much beyond his capacity to purchase and feel good.
4. The buyer can make payments for the purchase as per his capacity to pay on a monthly basis.
5. Products with low brand awareness get sold.

The disadvantages of lease purchase are:

1. Buyer buys products he does not want/cannot afford.
2. Monthly payments can become a big dent in the buyer's pocket.
3. Sellers may sell to a buyer who does not have the money to pay or may not have intentions of making the payments. In such a case, the seller has to run after the buyer and he may have to resort to legal action to claim the amount, which is not good for the business of the seller.

As in the West, especially in America, leasing and hire purchase have become a norm, it is expected to take further roots in India also.

Firms that have selected to carry out sales through channels rather than through their own salespersons face the following situations:

1. Dealer/distributor should sell their products exclusively. In such an event the dealers are not allowed to sell competitive products. These dealers therefore expect the seller to be also totally loyal to them and not sell their products through any other dealer or channel. The dealer expects the seller to remain competitive in the market and for this purpose he wants matching prices, discounts and other terms of business as compared to what the competitors are offering to their dealers. The seller has to remain vigilant in such situations as usually the dealer tries to exaggerate the terms of competition for the better, which may not always be true. Seller needs to verify these statements from independent sources too.
2. Exclusive areas dealers want the sellers to offer the products only to them in their designated area. The dealer also gets bound to sell the products in his area only. In case the seller finds the dealer is not selling as per his expectations, he has to either cancel the dealership as per the agreed terms or consider appointing another person to sell in the same area. To avoid any conflict, the dealership agreement should have a clause that allows the seller to appoint more dealers.
3. Many sellers try to sell their slow moving products together with their fast moving ones. This is called product bundling. They sell the package deal or bundled products (a popular name for computer software combinations). The dealers can object to such deals.

   The MRTPC Act as it is popularly known, forbids the sellers to have such agreements and dealers can take recourse against any such practice by writing to the MRTPC. However, in practice, most such deals are done with the full cooperation of the dealers and dealer agreements have only an unwritten clause for such activities.

   We can summarise the activities of distributors/wholesalers as follows:

   1. Give large volume business to the manufacturers; operate through dealers and retailers to cover the geographic area assigned to them. Sell a small number of items only. Sell to the second level of the distribution chain—the dealer or the retailer as also to bulk industrial buyers.
   2. Purchase goods for resale from manufacturers in India or through imports.
   3. Some have their own retail outlets also.
   4. They have technical knowledge required to sell the product. Can provide product service to the customers.
   5. Make profits on large turnover even with low margins.

   Similarly, the activities of retailers can be summed up:

   1. Sell a large variety of multi-brand products.
   2. Sell in low volumes for each product as compared to the distributor of the product, who handles a large number of retailers.
   3. Sell to customers/consumers.
   4. Purchase goods from wholesalers.
   5. Location of retail shop, its façade, inner displays, window displays, salespersons and shop ambience are extremely important for the success of the shop.
   6. Profit margins for each product are higher than those of the distributor.
   7. Product mix, product shelf life are major considerations.

With internet marketing, telemarketing and teleshopping networks, which sell through television, the established channel of distribution may be threatened in the near future.

QUESTIONS FOR DISCUSSION

1. Discuss regional integration for trade.
2. Discuss geographic proximity as a factor of economic integration.
3. Discuss the political dimensions of economic integration.
4. Discuss economies of scale.
5. What are the possible trade channels available and what are their strengths?
6. Describe the following economic entities:
   - EU
   - NAFTA
   - ASEAN
   - FDI

19 International Markets for the Twenty-first Century, Imports and Exports

AIMS AND OUTCOMES OF THE CHAPTER

When a firm enters the market, it has some commitments to its customers, which are based on the utility, need and performance of its product. With a shrinking business world, even political distances can be shortened as no nation can remain an island. Therefore, in order to not just survive, but also to thrive in the marketplace, firms must have a global vision of the market, even if it is selling only locally, as otherwise foreign firms are going to cut into their business sharply. Hence, the nature of commitment of firms has to widen to not just cope with international competition but also in order to beat them in their own countries as well. In this chapter, students will learn about the nature of international markets and the role of market information in gaining competitive advantage in the international markets.

INTERNATIONAL MARKETS FOR THE TWENTY-FIRST CENTURY

The steps to counter competition are the following:

1. In-depth or intensive marketing within the country.
2. Extension of geographic boundaries of the markets.
3. Penetrating pricing strategy.
4. Strong merchandising effort.
5. Advertising, promotion strategy.
6. New product plans.
7. New products to be sold in new markets.
8. Vertical integration of manufacturing base.

Intensive Marketing

Depending on product surpluses, firms have to take a view that would encourage them into going in for aggressive selling to their present customers. Gillette is a case in point. When they started with their use-and-throw Presto razors, they were giving individual razors. Later on they came out with a pack of five razors, taking away the customers choice of product-switch midstream. Built-in gift schemes, leasing options, deferred payment plans all tend to intensify the thrust of marketing on the customer.

Geographic Extensions

Customers in India are now much more discerning about the quality of product they purchase and hence products from India today match international standards. It is therefore in the fitness of business that if Indian firms face competition from foreign firms they must find countries where they have a competitive advantage because of low-cost manpower and the latest technology products.

Penetrating Pricing

Indian products have a built-in cost advantage over their foreign counterparts. Yet, in the export market, the competition is from other developing countries. Products can be sold on marginal costing, provided there is a good base of sales in India.

Merchandising

Merchandising is the icing on the cake, the showmanship of products. In order to cater to the sophisticated customers, firms must pay great attention to the merchandising aspect of retailing.

Advertising and Promotion Strategy

Advertising and promotion are the buzzwords in today's business and need special thrust on a continuous basis.

New Product Plan

New products come from either customer needs or new product development and technology innovation.

Marketing Research

Marketing research is essential for scanning world markets for new products and these researches pay dividends by optimising marketing efforts in the right countries and through the right channels of distribution.

Vertical Integration of Manufacturing Base

Vertical diversification helps in reducing transfer costs as then the firm gets its raw materials from its own source. Well-established firms find themselves becoming top-heavy over a period of time, especially in the growth stages of its life cycle. Downsizing, or right sizing as it is called today, is the order of the day for such firms. The steps required for right sizing are:

1. A quick audit of the firm's activities to segregate the superfluous ones. Fixing an objective of right sizing exercise.
2. Closure of all superfluous activities (those activities, which do not generate any value for the customers).
3. Outsourcing activities to outside persons/firms.
4. Reducing manpower across the board, in every department at all levels.
5. Giving more important assignments and better pay to the remaining people.
6. Consolidating the gains of reduced activities.
7. Benchmarking results with the objective with which the firm had started the task.
8. If the right sizing does not succeed, it may be a good idea to divest from the product areas completely.

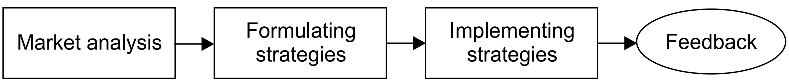
Firms have realised that they cannot operate in isolation. Coordination between two firms can help both in some way even when they may be competing with each other as can be seen from the following examples:

1. A cash-rich firm joins hands with a technology-rich firm. Both gain in terms of market share and profits.

2. Promotion plans can be jointly worked out. The industry bodies do it regularly when they fight against any government legislation.
3. Logistics support can be provided, which will reduce the costs substantially for both firms. If two neighbouring firms can use one common road, power and telephone lines, it could mean a lot of savings for both.
4. Price collaborations are popular in the hospitality industry like hotels and airlines. All of them provide similar benefits to customers like upgrades, free tickets for flying frequently with a particular airlines or free stay for frequent use of a particular hotel.

Because of the fast-changing market scenario and business environment, it is best to take the following steps for creating strategies for markets (see Figure 19.1).

Figure 19.1 Marketing Strategy Creation with Feedback Loop



As the firm goes into the implementation stage, it should not forget that even then changes are taking place in the market environments. Feedback therefore becomes a powerful tool of ensuring satisfactory management of marketing strategies.

MARKET ANALYSIS

It starts with Michael Porter's Five-force Model and goes on to understand the general environment factors (as discussed earlier). However, continuous monitoring of the environment is essential as the competition keeps growing each day.

PLANNING THE STRATEGY

This starts with allocation of resources—money, manpower, information and infrastructure—in the right area of marketing. It must decided how much of the budget will be spent on advertising, after-sales service, marketing research, developing new areas, travelling, dealer commission and promotional plans in view of the sales targets finalised by the marketing department. Each sales team needs certain inputs like travelling, communications and live demonstrations (if required by the product), to meet its commitment on sales objectives and these must be provided. New business horizons, like new geographic coverage and new product launches call for separate budgets. Care needs to be taken in manpower planning and deployment to ensure that the people working together work as a team, are congruent in operations, complement each other and are well balanced both in numbers and in experience. Market information system (MIS) should be kept updated with inputs from the market, sales invoices and dispatches. Authority to take decisions, along with accountability must be expressed perhaps in writing so that each member of the team knows his tasks, what he can do and what he cannot. Importance of scientific planning for the market has been brought to focus by the myriads of non-achievers who start with a bang and end with a whimper in no time.

Since competing firms have similar goals and objectives, firm that implements this strategy wins with better profits and improved brand equity.

IMPLEMENTATION OF THE STRATEGY

Implementation of the strategy requires the following steps to be taken by the firm:

- Team members must remain totally motivated and committed to their tasks.
- Team should be fully in the know of their quantitative and qualitative targets.
- Qualitative targets like improvement in brand image and training of team members should be taken as seriously as the quantitative targets.
- Individual members of the team should perform their tasks as also assist other members whenever necessary.
- Team leader should act more as a coordinator than a monitor. His actions should inspire the team.
- Assessment of achievement must be made first by each member and then for the team jointly by the team at regular intervals without waiting for the year to end.
- Success story of any member must be circulated within the team to inspire others and also to learn from the methods used to achieve the success. Failure should also be discussed, not to push people down but to learn from any mistakes the losing team may have made.

FEEDBACK

The last mentioned point goes as feedback to the management for use in other areas in which the firm may be operating. The feedback helps in reframing the strategies and therefore timely feedback is extremely important for the continued success of the firm.

Controls

Management must have inbuilt control systems to ensure that one unscrupulous person cannot hijack the entire organisation by deviating from the targets of the firm to promote his own targets. At times, even sincere persons lose track in the rut of day-to-day operations. Punishment or correction needs to be introduced at some stage before things go really wrong. The results should be compared with the targets already accepted by the team, in the following manner:

1. With the targets.
2. If the team has exceeded the targets, then with industry growth. The company must also know exactly the reasons of good performance so that it can be continued and replicated in other areas as well.
3. With historical figures.
4. With new targets if new competitors have emerged during the period under review.

5. With customer feedback about quality of goods and services offered by the team.
6. With the research and development group if improvements have been called for in the product.

New Challenges in the Twenty-first Century for Marketers

Global politics and economics are the most pronounced factors affecting today's business. Open markets, on the one hand, and economic zones, on the other, anti-dumping laws and quota systems for imports by some nations, hostilities in many parts of the world, war-like situations and faster communication, faster movements, have thrown up several challenges. For marketers these have opened several new routes as also closed some old ones as given next:

1. Quality standards at par internationally, ISO 9000 series.
2. Low labour costs.
3. A large technical workforce.
4. English as a known language.
5. Information technology (IT) and software expertise.
6. Presence of several multinational corporations (MNCs) already in the country.
7. Spread of the internet in the country
8. Emergence of e-signatures leading to e-commerce.

Firms that can gear themselves up to the challenges have a bright future both nationally and in the international markets.

The Virtual Marts

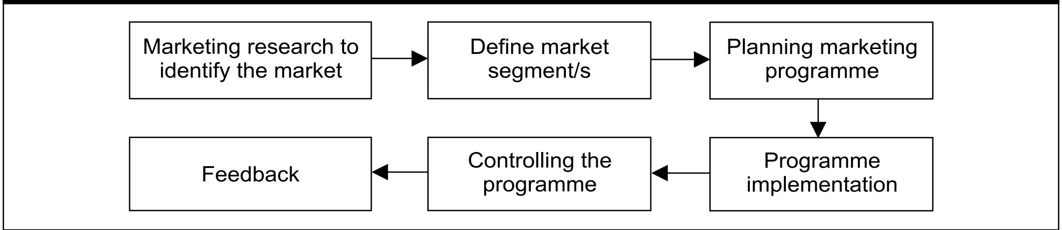
The internet or the web has the potential of becoming a force to reckon with as a marketing tool. As the PC population increases both in homes and in the offices, surfing the internet will become more popular. Bazee.com in India has started its business where sellers, both individual and firms, can place their products for sale. Websites auctioning products, including airline tickets, have emerged. These are only the tip of the proverbial iceberg and much more can be expected in the area of web marketing.

These virtual shops with little overheads can give the well-established supermarkets a run for their money. The only negatives of virtual marts at present are their lack of credibility among Indian buyers as also the fact that they take away the excitement associated with shopping. The Indian housewife enjoys window shopping, bargaining and generally having a great time out of the house in the course of shopping. Internet shopping denies her this experience. Also, unless a woman feels the silk of a sari, she is not confident about buying it. Perhaps with time or some innovative, ingenious technique, women customers would overcome this hesitation.

Hence, the marketer's route to success is as follows (see Figure 19.2).

Firms need to make a rolling marketing plan, which may be made for a year, but is reviewed every month and corrected if deviations are found in the business environment factors, both general and competitive.

Figure 19.2 Marketing Plan Dynamics



The marketing plan should contain the following:

1. Executive summary giving the highlights of the plans, especially the control points.
2. General and competitive environment factors, new products from the competition, market growth forecasts and summary of the findings of marketing research.
3. Comparative statement of strengths and weaknesses of the firm vis-à-vis competitors, with emphasis on the customer benefits derived from the usage of products from the firms, both its own and those of its competitors.
4. Profitable sales plan for the entire product available for sale, either by manufacture or by purchase, taking the 4Ps and the people into account.
5. Fixing individual quantitative and qualitative targets, qualitative targets could be in the nature of continuous training programmes and market feedbacks.
6. Profit picture derived out of sales revenue and marketing expense budgets.

The word strategy is more commonly used in planning by the defence forces. In the same parlance, marketing in severe competitive markets is like facing a war-like situation where the competitor is ready to gobble up firms not ready to face them. It becomes a do or die situation and hence all the possible loopholes need to be plugged, which becomes easy by using a systematic planning and control approach.

Task for Students

Locate the changes taking place in the business environment and discuss how firms can take full advantage of the same, despite severe competition in the market place.

* * * * * *

MARKET INFORMATION—INTERNATIONAL COMPETITIVE ADVANTAGE

In the first half of twentieth century, all the information needed for management decisions came from the sales team, who were considered the eyes and ears of the firm and gathered information for the company. Today, in the beginning of the twenty-first century, the information required by the management is immense and the information available is also huge. Naturally, the management wants to have all possible relevant information before taking decisions. International marketing research is one tool for gathering data, sifting it and isolating the relevant information. Information technology has progressed so fast that it has, in many cases, taken over the primary responsibility of business decisions.

Competitive Advantage

A firm, which has obtained accurate and timely information, gains competitive advantage over other competing firms. Indian business and economy today is on the threshold of an information revolution. Information converted into knowledge provides the firm with power, which it can use to overcome obstacles in its way and dominate the market. Therefore, information or knowledge is an asset in its own right.

Information can be defined as organised, structured data relevant to the firm and hence having meaning and utility for the firm. Thus the value of the information can be quantified to remove the abstract ideas attached to it. The decision depending on the information has a value to the firm. Focusing on this aspect, it should be easy for the firm to assign a value to the data. In this context, market research is undertaken by firms at a price. Firms try to locate previous similar situations and data connected with them from secondary sources. They go to the customers and ask direct questions to gather data, which can be converted into information and knowledge for decision-making.

The information helps in decision-making both for upstream operations, that is, in transactions with the suppliers, and in downstream operations, that is, in transactions with the buyers. Beyond buying and selling, information about the suppliers and the buyers including transaction details and actual situation negotiations leading to the transaction stays in the databank of the firm and is frequently updated.

The stored information can, in many cases, prove to be a money-spinner if properly utilised as follows:

1. Higher profits from sales because of the ability to sell more units per sale, have bigger sale volumes, charge higher prices due to information on the customer and also due to customisation of product and service and outbound logistics.
2. Lower material cost through information on the suppliers, organisation of 'just in time' supplies, bulk ordering for lower price, economic inventory levels and inbound logistics.
3. Marketing of the information itself to other firms (who may not be in direct competition with the firm).

It may not be easy to quantify the net gains of information as given here but with time it is quite possible to develop a mathematical model, which would calculate the extra gains. In order that the information remains profitable it has to remain updated and therefore the information mission should create an infrastructure for information continuum. Information helps firms in better transaction management and yet it remains in the background of quotations, delivery periods and payments. Information on the customers' real needs, buying habits and personality types provide a backdrop for dealings with the customers. In this context, it becomes imperative that the information is authentic and real time information. It helps in value addition to the customers and, therefore, brings extra profits to the sellers as discussed next.

Product Customisation

Customised product for the target market segment comes through knowledge of the segment. The sellers get better market share, can ask for higher prices and still keep the customers satisfied and delighted. The firm can reduce the selling cost, cost of advertisements and distribution by making the product more purchasable.

Looking at the Boston Consulting Group (BCG) Matrix (see Figure 19.3), the market position of products is located on the level of market growth and the firm's market share. Since the upheavals in the market place are taking place much faster now than ever before, there is a need to have the most recent information. With more use, the information gives better results. Being useful in a time frame only, there is an element of urgency, both in obtaining the information and in using the same. The firm, which does it better and faster, is usually the winner. The time frame between a product moving from the question mark quadrant to the star quadrant and from the star quadrant to the cash cow quadrant is shortening due to information about new customer needs and new product developments, both being interrelated. By the same theory, products land up faster in the dog quadrant now. The product life cycle is shortening because of the information revolution.

Figure 19.3 A BCG Matrix

BCG Matrix	Market growth		
	High	Star	Question mark
	Low	Cash cow	Dog
	Market share of the firm	High	Low

With real-time availability of information about customers' preferences, major and minor modifications and customisation of product becomes inevitable, causing the shortening of the life cycle of products. Management, therefore, must give great consideration to the higher rate of obsolescence of products while taking the basic investment decisions on manufacturing goods. More firms may opt for outsourcing the product or at least the sub-assemblies to reduce the capital costs. It has also spurred the research and development efforts of firms, which are required to keep the firm abreast with the latest market needs.

A major change occurring as a result is the definition of the industry; it is now defined in terms of market or customer needs and not in terms of product specifications and its benefits to the customer. Competition from firms other than conventional competitors is going to be a direct threat as information-rich competitors can always redefine their products to suit the customer. (For example, ready-to-eat food products compete with raw materials like pulses, flour, vegetables, meat, fish and poultry.)

It is, therefore, better to define customer and market needs, buying characteristics and consumer behaviour of the target market segment and match these with the product characteristics and benefits occurring to the customers from the product rather than going about it in the reverse order of first selecting the product characteristics and benefits and then trying to match these with the customer and market demands. The difference may appear trivial but in today's context it is vital for the success of a firm.

The information base has changed the distribution system in some products. Where time is of vital importance, like airline bookings, computer communications have taken over the booking counters. In case of physical goods too, online sales and auctions may remove the need of supermarkets, drug stores and over-the-counter sales. One can imagine the non-necessity of distribution channels, huge market complexes and increase in profit margins by virtue of non-payment of commission to the channel members. The benefits could be passed on to the customers or kept by the firm for diversification and growth.

Distribution Channels

The role of distribution channels has been of sellers of products only. The sooner they assume the additional role of information provider about the authentic market demands, consumer behaviour patterns and buying habits, the faster the channel members will find themselves back in the thick of the firm's business. Multi-brand dealers will ultimately have to choose their favourite brand, to which they would provide real-time information. They would also, perhaps, stop representing other firms.

Advertising and Promotion

Knowledge of the customer's mindset, his aspirations, values and desires would enable the sellers to communicate with him better with an appropriate language, provide the right incentives during promo-tions and get better results. Advertising agencies are on the look out for such information and they pay research agencies well to acquire this information.

Market Information System

Computers have made information banks a reality and real-time information update is happening today. The IT revolution is changing the market place, buyer's attitudes in time-saving internet purchases and much more is happening everyday in this area. Cellphones, mobile internet, business transactions on cellphones and SMS are slowly but surely changing how business is done and firms would ignore these paradigm shifts at their own risk.

Task for Students

Discuss the ways in which the IT revolution can be harnessed to the advantage of a firm.

* * * * * *

EXPORT AND IMPORT STRATEGIES

Each country has its entry barriers and other rules and regulations that guide the import and export business from and to that country. On these the companies depend for the selection of foreign markets, products for such markets, product differentiations, if any is required, and product pricing. Marketing strategies, distribution patterns and communication strategies are developed after the companies assesses the host country's rules for foreigners in the country.

In India, 1991 can be considered as the watershed year when the country decided to open up its economy to foreign players. The earlier period had seen restrictive international businesses with heavy embargo on imports. It was meant to give fillip to the indigenous industry. However, since it precluded international competition, it also restricted Indian exports. The policy of fostering local business thus became counterproductive as Indian business had little incentive to go overseas and consequently, the Indian consumer had little choice of products and of desired high quality.

With the opening up of the economy, the country has been virtually invaded by foreign players making it almost impossible for Indian businesses to survive without entering the international market. This has resulted in the country, including the government, placing great emphasis on international business. Hence, instead of just planning import substitutions, companies are going ahead with their own thrust in foreign markets. The Government of India's trade policy favours the export business.

Today's export–import (EXIM) policy focuses more on export incentives than on import substitution. Companies need to obtain the export–import code number from the Directorate General of Foreign Trade. The benefits that accrue to exports are listed next:

1. The consumer gets better quality product with a wide choice of products for each category.
2. Exporters get easy access to raw materials and components for increased manufacturing.
3. Exporters get to improve their manufacturing technology to keep pace with the world to make them competitive in the international market, especially with their inherent low-cost labour.
4. Companies can plan to capture a sizeable quantity of market share.
5. The EXIM policy covers export-related plans of the Government of India.
6. The *Handbook of Procedures, Volume 1* (Government of India 2002), contains EXIM procedures for exporters, importers and licensors.
7. The *Handbook of Procedures, Volume 2* (Government of India 2002), contains input–output norms for determining the advance licensing norms.
8. ITC (HS) is the classification of export and import items as a reference manual that enables exporters in determining if the product is export worthy or not.

Under the Customs Act 1962, the Government of India prohibits the import and export of certain products, completely or partially, subject to the Government Official Gazette. These restrictions cover areas like protection of public morals, protection of human, animal or plant life, protection of patents, trademarks and copyrights, use of prison labour, protection of national treasures of artistic, historic or archaeological interest, conservation of exhaustible resources, trade of fission materials, arms and war equipment.

Likewise the export of certain products can be regulated under the trade policy. Export promotion has been given importance in the policy as follows:

Duty drawback is given as refund of the customs duty paid on imports of inputs used in export goods, based on industry norms. These are available to all exporters. For manufacturer-exporters, the duty drawback is fixed for the brands exported. In some cases, the import is allowed for input products meant for use in export products. For capital goods import there is a 5 per cent concession on custom duty but with defined export obligations on the part of the importer of the equipment.

Besides this, there are duty remission schemes for merchant exporters. These operate through a duty entitlement passbook scheme as well. The goods sent to export processing zones (EPZs) are considered 'deemed exports' for the purpose.

The scheme or duty concession on capital goods benefits the companies in the export markets, as the goods cost much less than otherwise. Companies can also plan to set up the unit in the export promotion area as an export-oriented unit to get duty-free import of capital goods.

The government has provided for advance licensing to help in duty-free imports of materials needed for export goods especially for export-oriented units (EOUs). It is also true for EPZs. In the case of special economic zones (SEZs), there is the requirement of having a positive foreign exchange flow for becoming eligible for duty-free import of capital goods. Agricultural export zones, exporters of agricultural products, can get recognition as an export house, trading house, star trading house or superstar trading house by meeting the requirements associated with them. Software technology parks get the same treatment, along with the electronic hardware technology parks like export house, trading house, star trading house and superstar trading house and get recognition due to them after meeting the export performance levels associated with them. The government also provides assistance for the development of infrastructure for export and associated activities.

Funds are available for creating new export promotion parks, SEZs, agriculture-based zones, setting up electronic infrastructure for exports, forepart from equity participation in infrastructure projects in these zones. The category distinction of export units is given next:

1. Export house: Rs 150 million (average); FOB/FOR value of exports during the previous three licensing years.
2. Trading house/International service export house: Rs 1 billion (average); FOB/FOR value of exports during the previous three licensing years.
3. Star trading house: Rs 5 billion (average); FOB/FOR value of exports during the previous three licensing years.
4. Superstar trading house: Rs 20 billion (average); FOB/FOR value of exports during the previous three licensing years.

These state units get the following benefits:

1. Self declaration for customs clearance.
2. Priority fixation of input–output norms.
3. Priority finance for medium- and long-term capital requirements as per Reserve Bank of India (RBI) norms.
4. Compulsory bank negotiation of document not required, while it remains as the norm.
5. Foreign earnings in foreign exchange possible up to 100 per cent.
6. Repatriation period enhancement up to 180–380 days.

In the twenty-first century, the global economy is growing and barriers to international trade are reducing. This has resulted in an increase in the export and import trade between countries. For proper growth of exports the following are required:

1. To understand the strategies for planning exports and imports.
2. Locating the intermediate organisations for exports.
3. Understanding the organisation of export finance.
4. Understanding counter-trade.

Exporting companies should start by making an assessment of the export potential in the chosen countries/markets. They can then correlate the possible opportunities with the requirement of resources in the selected areas. They should get information about the countries from foreign government agencies, banks and financial institutions. Market selection can be done as follows:

1. Actively select the markets by using the marketing research techniques in the same market or similar markets located in the proximity of the selected markets.
2. Passively select the markets by responding to enquiries.

For formulating export strategies, the following need to be done:

1. Define both long-term and short-term objectives.
2. Plan specific tactics for entering the market.
3. Plan a detailed schedule of activities and deadlines focusing on results expected.
4. Allocation of resources for the tasks.
5. Determine the distribution channels, both direct ones like sales representatives, distributors and agents and indirect ones like host-country importers.

There are export marketing intermediaries as given next:

1. Export management companies, which obtain purchase orders for a group of exports.
2. Export trading companies, which service the overseas buyers.
3. Companies like the Japanese trading companies, which start by getting the raw materials and then find the export markets.
4. Foreign freight forwarding companies, which arrange for export license where required, shipping and warehousing facilities.

Summing up, companies planning exports should work out a good strategy by assessing the export potential in the selected markets through marketing research, obtain expert advice for the selected countries, select the markets, formulate the strategies by determining the 4Ps, the product, its price, the distribution channels, direct or indirect, and the best way of communicating with the market through advertising.

Export Financing

Companies have to understand the following while deciding about product pricing:

1. Currency of payment—its fluctuations: In case of highly-fluctuating currencies, it is a good idea to insure the payments at known levels.

2. Transportation—its costs: The different modes of transportation—air, sea or land, delivery time for each on average and the cost of each.
3. Import duties in the host countries.
4. Possible mark-ups.

Companies should understand the best methods of receiving payments for exports made. Payments can be received as follows:

1. Cash in advance.
2. Bills of exchange used in commercial transactions like sight drafts or time drafts.
3. Letter of credit (LC), which should be irrevocable and confirmed.
4. Financing receivables like EXIM bank loans, guarantees and Export Credit and Guarantee Corporation (ECGC) insurance.

In counter-trade, the possibilities are of barter trade like what used to take place between India and the USSR and was known as rupee trade. The other option is offset trade where the exporters assist the buyers in earning the required foreign exchange for the imports.

The Import Plans

Companies that want to import should understand the following:

1. Procedures for imports like custom duties and customs brokers.
2. Payments to be made by releasing the bill of lading or the airway bill for imports through air.
3. Storage of imports.
4. Long-term import agreements for keeping price parity, quality assurance and ready availability.

To sum up, the price of the product, the method of payment and financing of receivables are the three important issues that relate to export financing. Summing up, companies need to know the main features of export and import strategies, the types of export intermediaries available, export financing, price, payment methods, financing receivables and methods of counter-trade. Furthermore, for large companies, export becomes imperative because large companies must export for increasing sales.

Collaborative Plans

A company getting into international business has to select the method of going overseas like exporting, joint ventures, franchising or forming a fully-owned subsidiary. The decision would depend on the company's own experience, competitive factors, political factors, economic risks and the assets needed for the business. The choice would be made for the method that has the greatest synergy with the company.

Companies should understand certain issues as discussed next. Companies need to understand the forms of doing international business, licensing, exporting, franchising, management contracts, turnkey operations, apart from the variables which decide the choice of operational method and the problems in managing them in host countries. The host countries may have in place legal restrictions for overseas companies. They may have a ban on certain alternate methods. Companies need to understand their tax structures, anti-trust regulations and limits of remittances of funds like dividends to the home country. The choice could be affected by the cost. External handling may become low in cost as volumes are small and if a specialty company has excess capacity.

Variables that affect the choice are experience as greater experience leads to greater involvement. Competition changes the choice factor and the risks as external forms spread the risk and controls and internal handling means more controls and no sharing of profits.

Collaborative Strategies

Companies must understand that if their product that is meant for the host country is complex and is a high technology product, it is better to start marketing the product as sold in the home country. In case the company has got a good base in the host country or the economic standards of the home and host countries are alike, the same product would suffice.

Companies have to accept that in host countries they have to offer rights to intangible property like trademarks, patents and copyright as the host countries' associate has to pay royalty to the company. Technology can be exchanged through cross-licensing, while the reasons for licensing could be that the strategic product does not form a part of the company's major product range. The problems in the licensing procedure are as follows:

1. Controls because of non- or low-utilisation of the license.
2. Poor quality of the product.
3. Inviting future competitors.
4. Maintenance of secrecy during negotiations before the agreement is signed.
5. Determining the type of payment system like fixed charges or usage-based charges, value to give license as compared to the cost to the company for providing the license.

Franchise Arrangement

Companies can offer franchise arrangement to an associate company in the host country. Franchise arrangements are specialised forms of license involving continuous inflow of capital by the franchiser into the host country's franchisee. At times there can be a master franchisee and under him sub-franchisees too. The possible problems that face the franchiser are:

1. The host country might not accept highly-standardised operations in the franchise.
2. If the standardisation is of a low level, it becomes less attractive in the host country.

Management Contracts

At times companies could get into management contracts, especially when the operations owned have been expropriated or they are in trouble. In such conditions, the host country gets technical as well as managerial expertise without the use of foreign direct investment (FDI). The company can get out of the risk areas by joining hands with an insider but knowing fully well that the insider could become a competitor.

Turnkey Operations

Construction companies usually use these. The contracts start with feasibility studies and are followed by studies of means of protecting the contractor and the final bill is paid on satisfactory completion of the operations.

Summarising, the types of FDIs comprise licensing, franchising, management contracts and turnkey operations and contract agreements, with equity participation, with or without controls.

Companies can obtain foreign technology by creating a monitoring unit for scanning journals and databases. They can contract the work to research organisations and even start research projects with both foreign and local companies. They can establish their research and development operations in foreign countries using their infrastructure and trained manpower.

Companies can plan international operations taking advantage of collaborative strategies with ownership shared with the host-country companies. Such shared ownerships help with the advantages of better control of foreign operations and profits while the main disadvantages are the conflicts with local stockholders regarding payment of dividend and public disclosures on the company's activities. Shared ownership can be considered for quick expansion geographically besides spreading the research cost over a larger base of sales. It helps in having the resources of both the companies complement each other. A cash-rich company complements a technology-rich company. In some cases, the shared ownership could be a legal condition for entering a country. The company could have a larger voice in management of shared ownership due to its better brand equity. Companies can use equity as a control mechanism in shared ownership if remaining ownership is widespread and fragmented and voting rights stay with a particular class of shareholders. The success of a joint venture depends on the compatibility of the sharing partners.

Management of Foreign Contracts

The best way to manage foreign contracts is to continuously monitor performance apart from understanding if the operation is ripe enough for a takeover. The other important areas are resolution of conflicts and disputes arising out of the contract.

Summing up, companies have to employ different methods for different countries and for different products as the diversity increases; the task of managing and coordinating it becomes arduous and complex. Apart from working on collaborative strategies, a company has to include variables that need to be understood before selecting the operational form, the legal conditions, costs, competition, risks and problems associated with controls. The important forms of operation are licensing, franchise management contracts, joint ventures and turnkey operations apart from wholly-owned subsidiaries. Sometimes conflicts and disputes arise causing problems in managing foreign operations.

Companies have to decide about the proportion of resources they want to offer to the home management and to the overseas operations. In this way, companies may have to plan separate types of forms in reference to internal and external activities and their handling by the company. The final choice of the form to be used in overseas operations should be based on the company's corporate objectives. However, the choice involves trade-offs between the company's objectives.

International Business Controls

Companies involved in international business have to understand the methods of controls in order to achieve their objectives. These controls should focus on planning, implementation, evaluation and modification or correction of strategies for reaching the goals of the company. The organisational structure and its culture help in making controls and success easy to achieve. They should learn the planning loop, possible organisational structures. They should decide the decision-making levels and whether the decision-making location should be centralised or decentralised.

The Planning Loop

Companies have to intertwine the objectives with internal and external constraints. They should then assert the vision, mission, goals and objectives—the strategic intents. They should plan their strategies, implement them, place the control points in place and take suitable corrective actions when they miss out on their objectives in the given time frame.

The planning loop should focus on an analysis of the company's corporate resources, besides setting up the international corporate objectives. Next, the host country's general business environment should be understood and analysed by studying the following factors as they have an impact on business:

1. Demographic factors
2. Social factors
3. Cultural factors
4. Political factors
5. Legal factors
6. Macroeconomic factors
7. Technology factors
8. Global factors

The company should also understand the host country's competitive environment as applied to its products with the help of Michael Porter's Five-force Model.

Next, the company should look for alternative strategies and then select the optimum strategy for best results in achieving the objectives. It should be followed with implementation plans and control points to check aberrations and errors in time to nip them in the bud. This would lead to reanalysis of the resource deployment and corrections in the same where needed.

The company should define the level of foreign operations and their relative importance for the company. Naturally, the more important operations would need greater higher management support and hence should have a higher level of reporting by the foreign operations. They can plan to have a separate international division for the important host country. The company can go for a product or geographic grouping structure within the functional home base structure. The company can plan on a matrix structure with reporting to product, geographic and functional operations. The structure could be a hierarchy based one or of some equals working together for the common goals.

DECISION-MAKING LOCATION

Centralised decision-making is usually through the top management of the home country. Most companies, however, have neither centralised nor totally decentralised decision levels. The selection of decision levels is based on the distance factor, levels of communication technology in the host country and efficiency factors. The centralised decision level is preferred in case the movement of goods is international, where decisions must be made quickly and standardisation is the key to success. In such cases, the global competitive position takes precedence over the country-by-country competitive position of the company.

Centralised decisions are preferred where the host country's conditions are similar to the conditions in the home country, the product is uniform and the decisions have far-reaching importance for the company. However, it must be taken into consideration that centralised decision-making may hurt the host-country managers as they are then rendered as just implementers of the decisions with no role in making them and this can become a major de-motivating factor for them.

The level of decision-making should depend on the competence of individuals, the cost of wrong decisions that the company will have to pay for at each level and the impact of the decisions on the company's performance in its totality.

THE CONTROL MECHANISM

Companies face difficulties in setting up control systems as the corporate culture of the host subsidiary or joint venture could be quite different from the culture of the home country. The timelines of reports is an important facet of controls. Besides, a company can face the following problems while planning for controls in international business:

1. The difference in the standard operating ratios in different countries for comparing with the budget figures.
2. Evaluation required for both the operating results as well as the host-country managers as some factors would be beyond their control.
3. The host country's companies that have been acquired may have managers with a high level of autonomy in their operations.
4. Local controls may be difficult to remove when changing from a multi-domestic strategy to a global one.

Besides these problem there can be special situations needing a different planning process for controls as given next:

1. Where the legal provisions and liabilities and taxation are different for subsidiaries and own branch offices.

2. Shared ownership with a company from the host country can create problems in deciding about control yardsticks and control points.
3. The duality of operating forms, one for equity and the other of non-equity based would create special control problems.

Summing up, in the international business controls are more difficult due to the following factors:

1. Geographic distances.
2. Cultural diversities.
3. Having different strategies for different countries in which the company is operating.
4. Greater uncontrolled areas.
5. Problems of getting the right data.
6. Rapid changes in both the general and the competitive business environments.

Summarising, the planning loop defines the company's strategic intents, its resources and their utilisation and the choice of going for centralised or decentralised controls and decision levels.

QUESTIONS FOR DISCUSSION

1. What are the different types of exporters in India?
2. What are letters of credit and how many types of LCs are available?
3. What are the accepted accounting principles?
4. How do the exchange rates appear in the budgeting process?
5. Define balance of payment, theory of absolute advantage, PLC and interdependence.
6. Per capita income and purchasing power parity can be used to define a country's wealth. Discuss.
7. What is inflation and how does it affect business performance?
8. What are the major benefits of privatisation and how it can be made successful?
9. What is meant by the following:
   - Import substitution.
   - Favourable balance of payment.
   - PLC.
   - Absolute advantage.
   - Acquired advantage.
   - Country size advantage.
10. Discuss the following:
    - WTO
    - MFN
    - Dumping
    - Tariff
    - Ad valorem duty

- Quota system
- Foreign exchange control
- Import restrictions and local employment
- Protection of new industries
- Non-economic objectives of governmental interference in international trade

11. Why do companies resort to FDIs?
12. Discuss exports versus direct investment.
13. Discuss transportation costs in foreign trade.
14. Discuss the IMF.
15. Discuss special drawing rights.
16. Discuss free fluctuating rates.
17. Discuss market implications of exchange rate changes.

20 International Management for Marketing Personnel

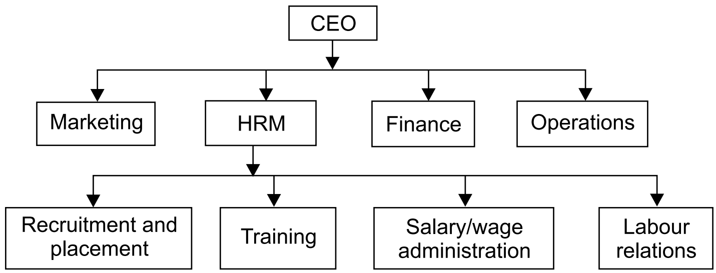
AIMS AND OUTCOMES OF THE CHAPTER

Companies in the international market have to locate the right marketing persons who are able to independently create a market for the company's products in host countries. While initially the company's own personnel would be ideally suited, they may not be fully aware of the host country's business environment. Local recruits and third-country employees can be suitable options. Home-country marketing personnel operating in the host country need to be highly motivated self-starters and the company should be able to trust them to take independent decisions for the benefit of the company. This chapter explores the various possibilities for optimising the human efforts in the international market.

Human resources (HR) people need to know the pulse of the organisation and the market. This will enable them to retain the best possible marketing personnel and reduce marketing team tension and indirectly help in containing the attrition levels in marketing.

Let us look at the present-day organisation chart of some prominent firms (Figure 20.1).

Figure 20.1 Organisational Chart for HR



The CEO heads the organisation and the departmental heads report to him, one of them being the head of the human resources department (HRD). One of the main functions of HR is the recruitment of staff, both white and blue collared. With the realisation of their dependence on the successful functioning of their personnel, firms have started giving HR function the importance due to it.

INTERNATIONAL BUSINESS VARIANTS

In international business there are a number of variations as given next:

1. Home country has the international headquarters, with regional offices at the host country or countries.
2. There can be marketing or outsourcing operations in a third country, which would need offices located there.
3. The HR activities could be centralised or given to the host country's management.
4. In most cases, the senior or key persons are selected centrally at the home country and deployed in other countries.
5. These recruits could be from either the home country, host country or even a third country, depending on the requirement or specific needs of the person.

HRD ACTIVITIES

The normal activities in the HRD are:

1. Recruitment of managers, supervisors, workers for each of the functional areas like marketing, finance, operations, HR, legal and technical, for example, research and development.

2. Training of the recruited staff.
3. Staff positioning, depending on work needs and norms established on performance output.
4. Performance reviews of the staff.
5. Salary and wage management.
6. Leave records and leave rules for the different category of staff.
7. Career planning, increments and promotions.
8. Disciplinary actions as and when needed against erring staff members.
9. Administrative functions and record keeping.
10. In the twenty-first century, the role of HR has widened, as the HR director is part of the top management decision group.

The HR function differs in the international arena because even a simple error overseas can become disastrous for the firm. Therefore of topmost importance is the recruitment of the right person for any given job.

SUITABILITY CRITERIA FOR STAFF

The following criteria are used to decide the suitability of candidates:

1. Age.
2. Qualifications.
3. Technical skills required for the job.
4. Experience in similar jobs.
5. Experience in working in the host country.
6. Knowledge of the host country's language, culture, work norms and ethical standards.
7. Candidates own ethical standards (this is difficult to assess; firms should go by the previous employer's references).
8. Experience of any international work.
9. Capacity for concentrated efforts for results.
10. Capacity and ability for team work. This would include forming teams with home-country employees, host-country and even third-country employees.

KNOWLEDGE OF THE HOST COUNTRY

For senior positions, knowledge of the following areas would be necessary:

1. The host country's tax laws and the taxation period (January–December or April–March, like in India).
2. The host country's monetary system.
3. The host country's borrowing interest rates.
4. The host country's labour laws.
5. The host country's laws relating to expatriates, their income tax and home leave payments.

6. Education system for the children of expatriates from the home country.
7. Infrastructure, logistics and communication systems of the host country.
8. Host country's language. (This could be optional in case of an otherwise qualified candidate because in most countries today English is spoken and understood at least in business dealings. English has become the business language of the world.)
9. The host country's currency, its fluctuations and its parity with the home country's currency and with the US dollar.
10. Norms for visa, work permits, travel within the host country and outside.
11. Housing, weather, availability of essential items for daily needs. (In ITI Mankapur near Gonda in Uttar Pradesh, the Alcatel France staff had to get even their food stuff flown in on a weekly basis from France.)
12. Yardstick for paying salary and wages to employees.
13. Medical facilities near the workplace and their costs.
14. Insurance plans including accident insurance and medical insurance available in the host country.
15. The level of governmental interference in business, recruitment and functioning of the firm.
16. Ethical norms of the host government. The firm must have a policy of dealing with this phenomenon as steering away from the right path could prove to be very expensive for the firm.
17. Parity of salary with host-country managers. This could be difficult to achieve as the home-country managers would get overseas allowances, education allowances and home leave payments, which would not be applicable to host-country managers.

The firm has to understand that in another country the personal life of an employee gets disturbed and for this the employee has to be compensated with paid home leave and other benefits like education allowance for their children, health cover if they are staying in the home country.

On the flip side, the salaries and perks given to the home-country expatriates can become a sore point for the host-country employees. Even technicians coming to India from affluent nations get far more pay than the top managers of India. In India, junior managers from Western countries come and stay in five-star hotels, while home-country middle managers cannot afford to stay there.

Most multinational corporations (MNCs) have training-cum-orientation programmes for managers who are transferred to other countries, where issues concerning the culture of the country, its language, currency and schooling and medical facilities are covered.

When firms start international business, they place their own country's managers in place in the other countries. Gradually, as the local managers learn the ways of the home-country firm, local managers replace the expatriates. They prove to be more effective as they know the country well. They also cost the firm less.

At times, home-country managers are unable to perform in the host country, which leads to negative results for the firm and the losses are much more in size than the losses a firm suffers in the local markets. Additionally, once the firm loses its grip on the market, it is difficult, time consuming and expensive to regain the position internationally.

Initially, a lot of software export from India was in the shape of human beings; software engineers were relocated from India to the USA, where they developed software for American firms. Thus, the American firms were able to get the best software people at a fraction of the cost of local American engineers. This resulted in fewer jobs for the local engineers. The government of the US had to force these firms to pay the expatriates the same salaries as the locals. This stopped 'body shopping' from India and the result is that the same kind of software is now developed in India and is exported from here.

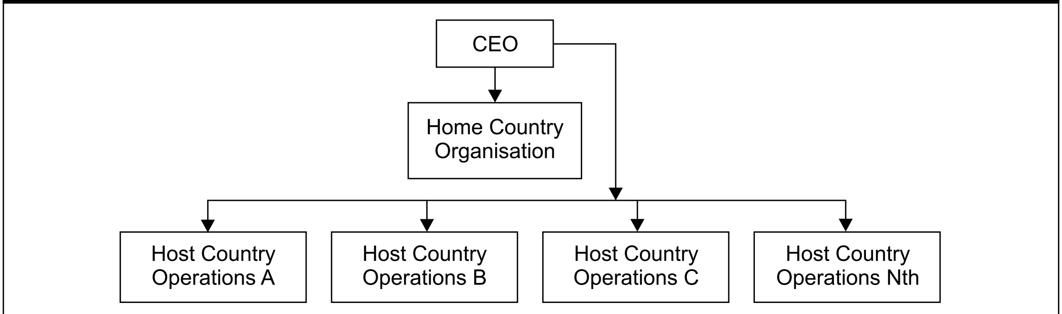
Summarising the status of HR operations in today's business, we find the following:

1. Sending staff and managers from the home country to the host country can be problematic due to different labour laws, economic differences and cultural variance. For specific skills, people are sent before the host country people can be trained in those skills.
2. Salary and wage can be different as also the productivity levels and norms.
3. Working styles differ in most countries, which could result in friction between the home-country management and the host country management.
4. What is the level of importance given by home country top management to the host country management.

To overcome these problems, most firms organise special training and orientation programmes before the employee is sent to the host country. The firms then try to locate local talent, train them in the special skills and finally these people replace the expatriates. The local manager, if selected with care, brings about economy (because he costs the company less than his home-country counterpart) and can be more efficient as he knows the local conditions better.

The international organisation of firms are shown in Figure 20.2.

Figure 20.2 The Organisational Structure of International Firms



The home-country managers select the persons who manage the host country's operations and therefore report to them. The relationship between the two needs to be clearly delineated to enable the working plans; policies and methods are adopted from the general managerial ethos of the host country. The home country's Seven S Model, comprising shared values style, staffing, systems, structure, strategy, and skills, may not be totally appropriate in the host country and the local management must be empowered to modify the model to suit the local conditions.

The home country management usually sends its best persons to look after their international operations. This helps the firm in establishing itself in the new environs quickly and well. These expatriates are more than welcome by the home country management and they usually get higher status on return as a reward for the good job done in the host country. Top managers in the home country watch each and every step taken by the managers posted in host countries. At times written guarantees are given to those posted out about the permanency of their jobs in the home-country operations.

SEVEN S MODEL

The Seven S Model needs to be studied with reference to the differences and similarities of the seven Ss in the home and the host country as follows:

1. Shared values: Shared values are the higher level ideals, which the firm's promoters inculcate in the firm's employees. These values reflect the business ethics, work culture and human issues like not just providing medical benefits to employees but going beyond that and providing employees and their kin the best possible treatment, under any circumstances, when the need arises.

   The divergence of shared values between the home country business and that of the host country's business ethos needs to be fully understood and a bridge needs to be provided for spanning the gap. If the home country business believes in age as hierarchy in promotions and the host country believes only in merit as the promotion criteria, a balance should be created to cover the divergence, like giving due weight to age while taking merit into account for promotions.
2. Style: Firms have work style differences as one firm could employ hands-on training while another firm could give classroom training. One CEO could be friendly even with junior managers and the other aloof. These differences can make or break a firm in another country, as the values, cultural and ethical, do not span across countries.
3. Staffing: Some firms believe in promoting people from within the organisation while others recruit from outside. In another country, recruitment could also be from a third country. This works well if the business milieu of the host country is understood well.
4. Systems: It is said that in firms people do not work, it is the systems that work. The following types of systems can be seen in a firm:

   - Resourcing systems—human resource, finance and information resource systems
   - Accounting systems
   - Recruitment systems
   - Reporting systems
   - Control systems

   In resource systems, the entire business dynamics comes in to play, including the resourcefulness of the business promoter. Accounting systems can vary from country to country and most firms working overseas like to maintain two sets of accounting records, one for the home country and the other for the host country, which should be in line with the practices followed in that country. Recruitment of local staff should normally follow the pattern associated with the host country. Reporting systems should be of two types, one for the home country reporting and the other for the host country. Control systems normally follow the firm's own systems as the entire success of overseas operations depends largely on this system. Control systems delegate authority with accountability to the managers with catch points to ensure that they do not go berserk with power.
5. Structure: The organisational structure wields a great deal of influence on the firm's outcome. The hierarchy-based structure is accepted worldwide and yet flat organisations with lower levels of decision-making have become quite common. Virtual organisations and networking are also in the picture as firms are resorting to outsourcing a lot of their products, assemblies, sub-assemblies to cut down on costs. International business has to accept the norms of the host country initially till they are ready to innovate and become more compact, streamlined and effective.

6. Strategy: The firm's strategies can be defined as its plans and policies and the action it takes in line with these plans and policies. As the business environment of countries is never the same, the plans and policies of one country would need to be suitably modified for them to succeed in another country.
7. Skills: The skills of a firm are part of its core competencies, as one firm may be good in electronics and the other in microbiology, while a third one in marketing. The home country skills need to be fine-tuned to be of significance in the host country.

It is only after a study has been made and the seven Ss scrutinised in all their dimensions that one can hope for success in an alien land.

INTERNATIONAL INFORMATION EXCHANGE

As there is a physical distance between the home and the host countries, it is important to have good channels of information flow. While the internet, fax and video conferencing are available in several countries, the communication between two countries must be clear, fast and confidential. Leased telephone lines are available in some countries. Similar facilities are needed internationally too.

The home office has to communicate policy matters, new product launches and promotional plans, all of which would be extremely useful to the competing firms. Therefore, confidentiality of communication is of utmost importance.

In several countries, the local language is not English, which makes communicating with them a lot more difficult. Business English has its own subtleties, besides some words of common use. It is a good idea to learn these terms. Many firms keep their foreign subsidiaries in tune with the home office's plans and policies and for this purpose they publish a newsletter giving an exposé of their plans.

Translation of local languages can be a tricky problem as literal translation can rob the meaning from the matter. Only experts in both the languages can do a proper translation work and then it is worth the effort.

With the flow of capital and technology worldwide, it is imperative that the HR is kept on top priority for gaining and maintaining excellence in overseas operations.

Expatriate managers have the following tasks to perform in the host countries:

1. Managing the firm's operations in the host country with the home country's expertise in management and with the local work culture.
2. Maintaining technological excellence with the local workforce.
3. Maintaining high-level government contacts.
4. Keeping a high level of public relations through communications, including advertising and publicity.
5. Understanding consumer behaviour, his needs for products and, more importantly, associated services and fulfilling the same.
6. Training and development of local managers, who would eventually take over the reins of the host country operations.
7. Understanding the business environment of the country, both the general business environment and the competitive business environment and the country's cultural environment to be able to optimise results.

FOREIGN DIRECT INVESTMENT (FDI)

Direct investments made by foreign organisations are followed by their control on the concerned business. This becomes a cause for concern for the host government and the people. However, these investments are welcome especially in the developing countries if they bring progress and expansion for the MNC firm and the host country.

While direct investment overseas generally is acquired by transferring capital from one country to another, capital usually is not the only contribution made by the investor or the only means of gaining equity. Firms make direct investment overseas to expand markets by selling abroad or to acquire foreign resources. Firms with foreign investments tend to be more profitable and have more stable sales and earnings.

Direct investment, because of the implied control, permits firms to make decisions to maximise global performance. It also helps to serve global efficiency; however, countries distort movements by restricting the inward or outward flow and by giving incentives to firms to locate their operations within their boundaries.

FOREIGN EXCHANGE

Domestic and international transactions differ in the use of more than one currency for international trade. The special cheques and other instruments for making the payments abroad are referred to collectively as foreign exchange. It is important to know and understand the terms and definitions of foreign exchange and how the foreign exchange market operates for immediate and long-term transactions.

A key aspect of exchange of currency is its convertibility. Some governments impose restrictions to control access to foreign exchange, depending on their foreign exchange reserves. International banking is the means for facilitating the flow of international transactions. It is the link between the economies of the world. There is speculation in buying and selling of a commodity where activities contain both an element of risk and chance of huge profits. There is a general belief that currency speculators are destabilising the world monetary system. Speculators may push the market in the direction it needs to go. In this case, by forcing governments to confront market realities, they may actually be contributing to long-term stability.

It is therefore important to understand how the exchange rates are set and why the rates change. This would help the MNC managers in making decisions that are dependent on those changes. There are three categories of exchange rate arrangements, according to the International Monetary Fund (IMF), as discussed next:

1. Fixed rates
2. Limited flexibility
3. More flexible

If the arrangement does not reflect the real position regarding the supply and demand of a currency, a black market develops for the same. However, the major systems for determining exchange rates are freely fluctuating rates, managed fixed rates and automatic fixed rates. Rates are affected by inflation, interest rate differentials and technical factors.

Balance of payment statistics, economic fundamentals and technical factors are used to predict exchange rate movements and fluctuations. After World War II, it was thought that a system of fixed exchange rates would help to bring stability and growth to the free world. It was, however, realised later on that that system created rigidity rather than stability and the system was restructured to allow greater exchange rate flexibility.

QUESTIONS FOR DISCUSSION

1. The success of international marketing depends on the team and the team leader. Discuss the optimum human resource management pattern for the achievement of corporate goals.
2. Home country management feels comfortable with their own nationals managing the host country operations. However, local issues, which are important, can best be dealt with by local managers. Discuss the role of local, third-country and home country managers.
3. How does HRM differ in international business from domestic business?
4. What is the relationship required between home and host country management?
5. What are the difference between expatriates, locals, home country persons and third-country persons?

21 International Marketing Audit

AIMS AND OUTCOMES OF THE CHAPTER

This chapter provides hands-on learning techniques to students. They will learn about the entire gamut of international marketing as they are required to actually and physically conduct an audit on any company engaged in the area of international marketing as a part of this chapter. This chapter will help to develop their confidence, build resourcefulness and give them a proper industry interface and, therefore, may need the strategic support of the teaching fraternity.

The most interesting and educative way of learning international marketing is by conducting marketing audit of a company from the list given next:

1. An Indian company involved in exports.
2. An Indian multinational corporation (MNC).
3. A foreign MNC.

The starting point for the audit is understanding the general business environment factors of the host countries and their impact on the company's international marketing efforts, as given next.

THE HOST COUNTRY'S GENERAL BUSINESS ENVIRONMENT

The following need to be studied, assessed, screened and monitored in the context of the country for correct planning of marketing strategies:

1. Demographic factors: These are brought out in the census of the country, factors like population dispersion in towns and villages, income levels for families, sex ratios and number of people affiliated to a particular religion. Shifts of population from villages to towns and from small towns to metro towns provide business opportunities, which no marketer can afford to miss. For a start, low-cost housing, clothing, transportation and eateries are needed.
2. Social factors: Factors like the increase of working women in towns at all levels of income are very important. The rise of women in the workforce has given a big boost to the demand for time-saving equipments like washing machines, vacuum cleaners, microwave ovens and precooked foods. As women are coming out of homes, better dresses, cosmetics and health gyms are required. With double-income families on the rise, firms dealing with leisure-time activities, holiday packages and travel have received a boost.
3. Cultural factors: India is a land of rich cultural heritage. Its culture is rich and diverse. Marketers and advertisers take full advantage of knowing the buying season in different parts of the country. During Deepavali, Hindus buy new clothes, household articles and exchange gifts. Muslims do the same on the occasion of Eid while Christians do the same around Christmas. The cultural ethos provides innumerable themes for promoting sales. India is a vast country, where 20 languages are spoken, several religions and varied cultures and sub-cultures coexist. For example, in Punjab, there is a Punjabi culture and within is the Sikh sub-culture. Karnataka has a Kannad culture and then its district Coorg has its own sub-culture.
4. Political factors: In India, it was the political will of the government that led to liberalisation, privatisation and globalisation in 1991. The influx of foreign capital, setting up of manufacturing bases and joint ventures all sprung up from then onwards. Changes in the cash reserve ratio, taxation rates and duties are the political factors that have a major impact on business.
5. Legal factors: The Supreme Court's directives have made car manufactures change the emission standards to Euro II. Diesel buses are on their way out in Delhi for the same reason. Ignoring the law of the lands can be detrimental to the interests of the firms operating in the country.
6. Macroeconomic factors: The interest rates, taxes and duties and the balance of payment situation between the home country and the country the firm wants to do business with and foreign currency rate fluctuations have a major impact on business and they must be well understood by the firm.

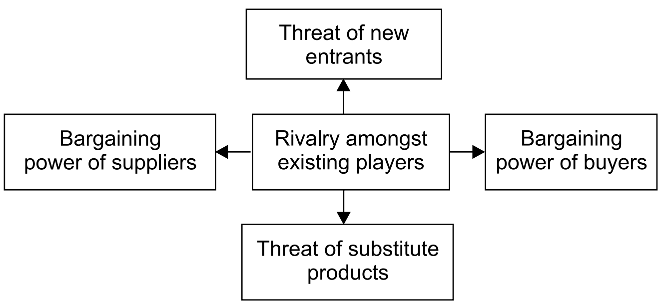
7. Technology factors: In the past decade, information technology, telecom, biotechnology and genetic engineering have revolutionised the business scene in the world as also in India.
8. Global factors: The breaking of the Berlin wall and the reunification of Germany, the break up of the USSR, the recent attacks on the World Trade Tower in the New York and on the Indian Parliament and the liberation of Afghanistan have affected business worldwide and most countries are trying to recover lost ground. On the brighter side, developments in the area of medicine, agriculture and cloning have helped the world in taking giant strides towards a better future for its children. The following are the major elements in a globalised economy:

   - The world is becoming smaller due to reduced travel time and faster communications through the internet.
   - Strong trade zones like the European Union (EU), the North Atlantic Free Trade Agreement (NAFTA) and the Association for South East Asian Nations (ASEAN).
   - Market economy in Russia.
   - The rise of multinational and transnational firms.
   - International strategic alliances.
   - The growth of global brands in foods like Kellogg's.

COMPETITIVE BUSINESS ENVIRONMENT

It is important to analyse the competitive business environment with the help of Michael Porter's Five-force Model (Figure 21.1).

Figure 21.1 Competitive Analysis Model



Rivalry Among the Existing Players

The most important factor must deal with the existing competition, which over the past decade has increased several fold. In India, marketers enjoyed a virtual oligopoly for most products till the epoch-making year 1991, when the Government of India opened up the country's economy to foreign players. The severity of competition is manifest in the innovations in the marketing mix factors by most firms.

Foreign players have brought with them the latest technology, well-known brands and management skills. And yet they lack basic information about Indian buyers, their culture and mindsets. Indian firms can therefore gauge this intrinsic weakness in the foreign players and gain advantage over them.

Bargaining Power of Suppliers

The suppliers of a firm belong to one of the following types:

- When there are several suppliers of undifferentiated products and a few buyer firms. A case in point would be suppliers of nuts and bolts. In such cases, the buyers have the bargaining power and the large-volume buyer gets the better price as quantity discount.
- When the suppliers are limited and there are several buyers, the bargaining power shifts to the suppliers as then the suppliers can pick and choose their buyers on the basis of their purchase value, proximity and adherence to payment schedules.
- When the suppliers may be limited but they are making unique products for a particular firm, like car seat manufacturers. In such cases, the buyers have the power to the extent that the supplier has to conform to the standards and delivery norms. As there are no other buyers for the product they can acquire bargaining power by cornering the firm into a tight supply position and the firm will accept any term of business as long as it can keep its production going.
- When the supplier is a part of the firm's own group, as then the bargaining power is decided by the head of the group who has to have profit distribution among the various members of the group.

Bargaining Power of the Buyers of the Firm

The customer gets his power to bargain when there are several firms supplying the same product and the customer gets his choice of buying from any one of the sellers, unless brand preference comes into play.

Threat of New Entrants

When the product demand is in the growth stage of the product life cycle (PLC) and the entry barriers are few, like high investment costs or government restrictions, then newcomers find it difficult to start business in that area and in that product.

Threats of Substitute Product

For paint manufacturers, lime paint (*chuna*), wallpaper, cement and wood panelling are the substitute competitive products.

It is useful to understand the internal strengths and weaknesses of a company, as discussed next.

The following give a good balance of the different areas required for planning strategies in a firm:

1. Critical success factors.
2. Value chain analysis.
3. Core processes and systems.
4. Balance scorecard
5. Qualitative analysis.
6. Quantitative analysis.
7. Activity-based cost analysis.

CRITICAL SUCCESS FACTORS

These are the factors, which govern the success of the firm. They are derived from the following:

1. Industry factors, whether it is growing, if yes, at what rate.
2. Its position in the market life cycle.
3. The general business environment factors.
4. Technology updates.
5. Competition.

For a car service centre, the following would be the critical success factors:

1. Population of vehicles in the area.
2. Growth rate of vehicle population.
3. Is the product just being introduced?
4. Demography of the area.
5. Quality of service being provided.
6. Service equipments at the service centre.
7. Number of trained servicemen.
8. Location of the service centre. Does it have easy ingress and egress?
9. Parking facilities.
10. Service timings, 24 hours or less?

The critical success factors of a firm can be analysed similarly.

VALUE CHAIN ANALYSIS

Michael Porter, the management guru, has structured a method of analysing the functional areas of a firm. The functions can be divided in two major blocks—the staff/support functions and the line/primary functions. The activities/functions are within the firm, which provide value to the customer. Its graphic representation is given in Figure 21.2.

Figure 21.2 Analysing Firms for Adding Value to them

	Support activities—HRD, technology, finance, infrastructure, MIS	
Suppliers ⟶	Line activities—inbound logistics, operations, marketing, service, outbound logistics	⟶ Customers

Inbound logistics cover the movement of materials from the suppliers to the firm, cost of the movement and timely supplies. Operations deal with productivity as compared to competition, production control and automation in production and factory layout. Marketing covers market research, advertising and promotion, distribution channels, brand equity and the product's place in the Boston Consulting Group (BCG) Matrix and in the PLC. Service covers the guarantee service, other outside guarantee service and handling of complaints.

Outbound logistics covers the movement of finished goods from the firm's warehouse to the customer's place. The analyses must be done keeping the customer's viewpoint in mind. For instance it would be appropriate for a firm to know if its new finance manager has a customer-oriented approach or not. The main flaw in this study is that while individual functions are probed there is no investigation of the inter-relationships of the functions.

Task for Students

What activities in the value chain would be the focus for change if a CEO of a manufacturing firm decides to dramatically improve the delivery time of the firm's products?

(The answer to this would be purchasing, finance, logistics, both inward and outward, manufacturing, services and may be personnel or HRM.)

* * * * * *

CORE PROCESS AND SYSTEMS

In order to reduce the fault associated with the value chain analysis, cross-functional teams or groups are formed, which are based on the main or core processes of the firm. The diagram for core process analysis is shown in Figure 21.3.

Resources—human, capital and information—are brought by the firm from the outside. Out of the three core processes, product development consists of market research for selecting the product, getting the technology for manufacturing the same, either through research and development (R&D) or by buying it from other sources. The product design goes from R&D to process engineering before it is frozen and given to the manufacturing department.

Demand management is the second core process, which includes the marketing–distribution network, advertising, promotion and personal selling; all that goes into obtaining the purchase order from the customer.

Figure 21.3 Core Process and Systems

	Resources—information, human, capital	
	Product development process	
	Demand management process	
Suppliers →	Order fulfilment process	→ Customers
	Controls—budgetary, time frame and deviations from standard results	

Order fulfilment, the third core process, starts with getting raw materials from the suppliers, in-bound logistics, raw material storage, manufacturing, finished goods storage, outbound logistics up to the customer's premises. Maintaining low current assets level with 'just in time' supplies is part of this process.

The study of core processes tries to look at cross-functional areas and hence avoids the pitfall of missing the interaction between the various management functions.

BALANCE SCORECARD

To understand the holistic picture of a firm it is important to address four areas, which decide the possibility of successful result in a firm. These are:

1. Customer
2. Finance
3. Operations
4. Organisation

Customer

Firms work for customers, earn profits and grow because of them; firms need to know their market share and brand value. A firm's position is determined by its competitive advantage over competition. Firms gain competitive advantage by one or all of the following means:

1. Achieving uniqueness over competition in product, price, placement and promotion or in service; provide differentiation, which is liked and appreciated by the customer and which does not jack up the price to an extent not acceptable to the customer. (Providing gold wiring inside a TV set in place of copper wiring is an extreme example of total opportunity loss with product differentiation

and high pricing.) Customers look for differentiated product as it gives them satisfaction and an ego boost by making them owners of a product no one else possesses.
2. Low cost of production, which is achieved by economies of scale of manufacture and by experience curve of the workers who improve their productivity over time and reduce production rejections. Lowering the cost should never be at the cost of product quality because it could become counterproductive and the firm could lose the entire market. With lower cost of production, a firm generates cash, which can be utilised in the firm's growth or at times of severe price competition in hitting at the competition.
3. Quick response. A firm that is first at meeting the requirements of the customers gains advantage over firms that enter the field later.

Finance

Finance is mainly used to determine the profitability of a firm, its growth and the economic value it is adding to itself. Economic value added (EVA) can be seen as the true indicator of a firm's financial health, rather than the usual return on investment (ROI).

EVA can be arrived at in the following manner:

$$\text{EVA} = \text{PAT} - (\text{interest on debt} + \text{cost of equity capital})$$

Where PAT is profit after tax and cost of equity is calculated by taking average risk-adjusted rate of return, which an equity or shareholder will get if he invests his money elsewhere.

Firms can increase EVA by getting lower cost capital or by using less capital.

Operations

To analyse a firm's operations, the core processes, product development, demand management and order fulfilment processes must be looked into. How the firm can obtain competitive advantage from these processes needs to be understood.

Organisation

Understanding the following areas of a firm is required for organisational analysis:

1. Leadership based on leading by example, motivating personnel rather than ordering them about.
2. Motivation and energy level of the workmen.
3. The firm's ability to accept change when required.
4. Learning mode of the firm.

QUALITATIVE ANALYSIS

An organisation must be in a learning stage if it wants to maintain and increase its market share and brand equity. Hence, organisational analysis is the most important area, which should be analysed with care. Viewing the behaviour pattern of its people can help assess the organisational culture; do they look up and about moving with a purpose or do they having a laid-back attitude towards the firm and its results. Are all the members of the firm committed to the vision, mission, goals and objectives of the firm? These soft areas of a firm are candid reflections of the direction the firm is going to take.

The better-managed firms permeate a positive sense of urgency in the managers. They keep comparing their own results with the results of their competitors. They keep raising the bar of excellence to push themselves to better performance, even if they are the best in the business. Innovation and creativity form the bedrock of their enthusiastic working energy, which separates the winners from non-winners.

QUANTITATIVE ANALYSIS

It is done to understand the viability of the firm and its intrinsic strengths and weaknesses. A close look at the profit and loss statement and the firm's balance sheet for the past few years gives a clear picture. The following ratios need to be seen:

Liquidity Ratios

- Current ratio = current assets/current liabilities (availability of current assets to pay current liability).
- Quick ratio = current assets – inventory/current liabilities (ability to pay current liabilities and inventories through current assets).
- Cash ratio = cash and cash equivalents/current liabilities (availability of cash to pay current liabilities).
- Inventory to net working capital = inventory/current assets – current liabilities (affect of changes in inventories on playability from current assets).

Profitability Ratios

- Net profit margin = net profit after tax/net sales.
- Gross profit margin = sales – cost of goods/net sales.
- Return on investment = net profit after taxes/total assets (rate of return, management efficiency indicator).
- Return on equity = net profit after taxes/shareholders equity.

Activity Ratios

- Inventory turnover = net sales/inventory.
- Assets turnover = sales/total assets.
- Account receivable turnover = annual credit sales/account receivables.
- Fixed asset turnover = sales/fixed assets.

Leverage Ratios

- Debt equity ratio = total debts/shareholders equity.
- Current liability to equity ratio = current liability/shareholders equity.
- Earnings per share = total dividend declared/number of shares in the market with shareholders.

Besides it is important to know the following:

1. The firm's ability to raise additional capital.
2. Cost of capital.
3. Relationship with creditors and stockholders.
4. Dividend policy.
5. Match between resources and usage of funds.

These analyses would certainly throw up improvement opportunities in the firm. Financial comparisons should be made with the following:

- Firm's own historical figures.
- Industry norms.
- Besting the line, the benchmarks.

Some Additional Financial Ratios

The following ratios give a firm insight regarding its operating efficiency. The data is usually available in the firm's balance sheet and from the stock exchange:

1. Growth rate in sales is calculated by comparing the growth between year 1 and 2, year 2 and 3, year 3 and 4, and year 4 and 5 and then it is multiplied by a specific weight as shown in Table 21.1.

Table 21.1 Yearly Growth Rate and their Weightage

Growth between years	*Weight*
1–2	1.0
2–3	1.2
3–4	1.4
4–5	1.6

2. Growth rate in asset ratio: This gives an idea of the growth of the firm's corpus, the investment made in assets to expand the firms operations.
3. Working capital ratio: This is calculated as:

   Working capital ratio = inventory + receivables – payables/gross sales.

   It gives the firm's ability of managing short-term funds.
4. Dividend ratio is calculated by dividing profit after tax by the dividend; it gives the firms ability to meet the expectations of the shareholders.
5. Debt equity ratio: It is calculated as follows:

   Debt equity ratio = debentures + long-term loans/capital + reserves.

ACTIVITY-BASED COST ANALYSIS

For costing to be done, factors like cost of rework, cost of bottlenecks and delays are not taken into account. The analyses must reveal the cost drivers of the firm. Usually the unit cost of production is calculated by taking man-hours and material supplies into account. In activity-based costing, an engineer accompanies the account, to focus on the details of workers activities during the work period.

Task for Students

Students can ponder on the following question and give their comments:

Should a firm's financial strategy be strongly related to its overall corporate strategy? If yes, then why?

* * * * * *

In conclusion, it can be stated that the emphasis on the bottom line suggests that the firm's profitability is the one factor that determines its long-term viability. Examining performances in the light of customer value, finance, operations and organisational issues and perspectives provides a more balanced and meaningful assessment. The general and competitive business environment have a great influence on a firm's business. Given next are the environment factors and how their study can be of help to firms.

LINK BETWEEN CASH FLOW AND VALUE CHAIN

Table 21.2 gives a clear picture of the link between cash flow of a firm and its value chain.

The cash flow and profit picture comes from the following:

1. Sales revenue.

Table 21.2 Link between Cash Flow and Value Chain

Infrastructure
Finance
Human resource management
Technology
Information

Inbound logistics	Operations	Marketing and sales	Service	Outbound logistics
Material handling	Processing and assembly	Sales force	Installation and commission	Finished goods handling
Warehousing/first in first out	Testing/TQM	Distribution	Training of personnel	First in first out
Freight/insurance	Packaging	Advertising/ promotion	Service equipment	Finished goods store
Administration		Administration		

2. Operating expense
2. Operating profit
3. Less taxes
4. Net operating profit after taxes
5. Add depreciation

The accounting picture can be seen from Table 21.3.

Table 21.3 Working Capital Accounting

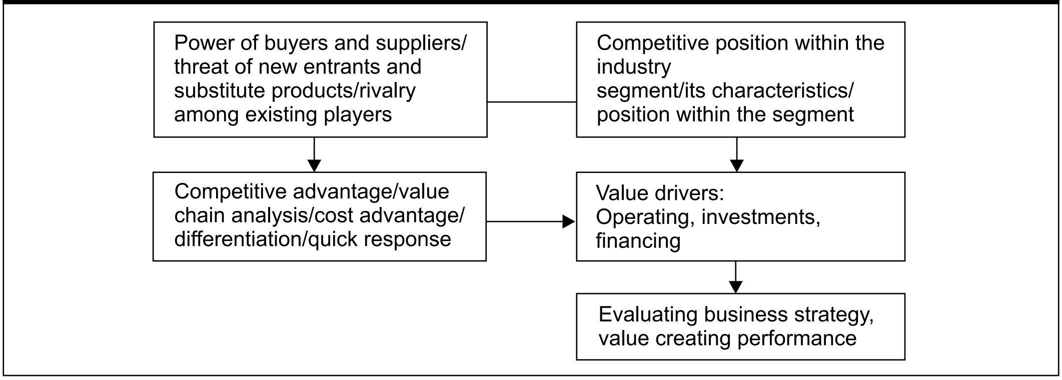
Raw materials, inventories, account payables	Work in progress inventories	Finished goods inventories	Accounts receivables	Inventory of spare parts, service, research expenses

After adding the depreciation, increase in working capital has to be reduced. And then expenses of the following need to be considered:

1. Warehouse equipment and transportation.
2. Production facilities and equipment.
3. Finished goods store equipment and transportation.
4. Distribution facilities sales expenses.
5. Service equipment, facilities and transportation.

After reducing increase in working capital expenses, reduce the capital expenses to get the right cash flow (see Figure 21.4).

Figure 21.4 Capital Expense and Cash Flow



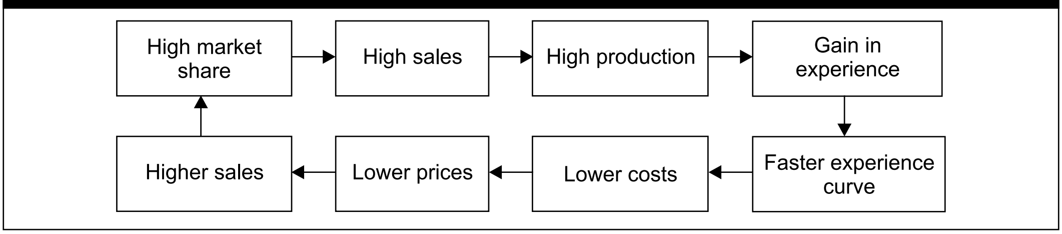
MARKET FOCUS

In order to gain competitive advantage in a diversified field of operations with several players, it is useful to concentrate on a specific market segment, which is best suited to the product and the firm and which best accepts both the product and the firm. This way the firm can concentrate on the communication channel, the language, the sales outlets best suited to the niche segment. This would help in focused attention on the customer group and efforts would not get dissipated in the large mass market. Product differentiation could be made suiting the narrow market needs in view.

THE EXPERIENCE EFFECT

When a firm has been making a product for a long time, the cost of unit manufacture tends to go down, because the workers, having gained experience, make fewer mistakes. As a result, the rejection rate goes down and unit cost of manufacture reduces considerably. A classical example is that of integrated circuits (ICs). Initially, when the ICs were made they cost Rs 150–300. Today ICs can be purchased for almost one-tenth the cost, simply because the rejection rate, which was almost 70 per cent earlier, has gone down to less than 2 per cent over the years. The cycle goes on as shown in Figure 21.5:

Figure 21.5 Experience Effect



Before planning strategies, the internal strengths of the firm must be identified. This can be done by locating the critical success factors, value chain framework, core processes and systems; how the various activities get reflected on the profit of the firm and how these provide value to external and internal customers of the firm. Ratio analysis gives an idea of the financial strengths of the firm, including the concepts of EVA and Activity Based Cost Accounting (ABC). Qualitative analysis focuses on the soft numbers like motivation level of the workers of the firm. The balance scorecard gives the financial, operational, marketing and organisational perspective of the firm's strengths and weaknesses. The firm's strategies could evolve from these studies.

There are four main components of the audit as given next and are discussed in some detail for ease of the reader's understanding:

1. Marketing concepts
2. Behaviour concepts
3. Financial analysis
4. Balance sheet

MARKETING

The marketing strengths of a firm are the most important single factor for its success. Firms selling the entire produce at a reasonable profit, increasing sales of the same product portfolio, selling at a higher price or successfully developing new products and selling them too profitably would not face serious problems. In evaluating the marketing strengths of a firm, the following areas are examined:

Marketing Environment

Markets, customers, brand equity, competition levels, economic trends, money supply position in the market, legal issues, social developments and problems besetting the market and their causes.

Marketing Action

Products, pricing, distribution channels, advertising and promotion, personal selling, publicity.

The questions to be asked during an audit are summarised next:

1. Customer's primary and secondary levels of satisfaction derived from the product; the idea of the product as sold by the firm and the customers viewpoint about what product he is purchasing.
2. Environmental issues shaping the markets, competition and customers.
3. Firm's special skills as compared to the competition in marketing.
4. Marketing problems and opportunities the firm is facing today and may have to face in the future.

ENVIRONMENTAL THREATS AND OPPORTUNITIES

In the dynamics of the host country's economics, firms must understand that the changing conditions will make some markets more amenable than the others. Firms need to keep constant vigil in the following areas:

Law and Politics

Government regulations can change product emphasis in the market; a recent example being the stopping of sales of cars not conforming to the Euro emission norms. Other examples are the Government of India's disinvestments in some prominent firms, their voluntary retirement scheme (VRS), price regulation of some commodities and, at times, deregulation of prices. These affect the business of some firm or the other.

Competition

Competitive action needs continuous attention, especially if the market is an oligopoly one. Remaining proactive on competitive product launches, new pricing, advertising and promotion would help the firm in retaining its market share and even in increasing it.

Suppliers

Oligopoly supply firms tend to have the edge and they keep changing the prices (always to the higher side) and other terms of business to their advantage. Firms, which have diversified vertically, are at a distinct advantage over others. It is therefore necessary for firms to keep a constant vigil on the supply scene and always have more than one supplier for vital raw materials.

Demographics

Population composition is changing; there is a large teenage group, a large population of senior citizens and migration of workers from villages to towns is a continuous phenomenon. All these factors present business opportunities.

Alternate Products

These are available with better technology (electric shavers became popular for a while in the 1970s–80s); lower air fare prompt train travellers to travel by air.

Product's Location

Understanding the product's location in the life cycle is important to understand the behaviour of competitors who could be market leaders or market laggards. Firms have their own priorities with regard to placing the product in a particular segment. Competitive information can lead the firm to take a vigilant proactive decision in terms of its own product's business plan.

Understanding the Consumer

The consumer's needs, their buying patterns and habits, purchase decision triggers and the answers to the five Ws and one H—what they buy, why they buy, where they buy it from, when they buy, which price they buy at and, finally, how they buy—is required. In normal circumstances, when the firm is making a profit and selling its entire produce, these questions become irrelevant. It is only when new technology competitive product swamp the market, the firm does not know what hit it. Maslow's hierarchy of needs and the Freudian theory of desires must be addressed to plan market policies. A car is just not a means of transportation alone; it could reflect the owner's status. A Mercedes is bought more as a status symbol than for any other purpose. Firms do better if they understand consumer behaviour in the market segments selected for their product.

MARKET SEGMENTATION

In the first half of the twentieth century, the stress of firms used to be on production and whatever was produced was sold. Competition was either not there or it was just not enough, with market for all the players in the field. With severe competition from international players, each selling multiple brands and models, it would be futile for firms to sell in the mass market. The segment variety needs different selling techniques, advertising messages and what works for one segment may not work for the other. Product, price, promotion and placement all need different strategies for different segments. Segmentation is done on the following lines (Table 21.4).

Strategic audit should trace the firm's growth and standing in the market place, which can be done on the following parameters:

Market Growth

- Same product increased sales through penetrating prices and increased efforts of the marketing team.
- Same product sales increase in extension of geographic areas.
- New or improved products in the same geographic area.

Table 21.4 Market Segment Variables

Demographic variables	*Geographic variables*
• Age • Sex • Family size • Children's ages • Occupation • Income • Education • Religion • Social status	• Country • Climate • City size • State • Population density • Country's main religions
Psychographics variables	*Product usage variables*
• Lifestyle • Personality • Product loyalty • Product awareness	• Heavy users • Medium users • Light users

Acquisitions

This involves investments of available funds of cash-rich firms in products or business diversification by acquiring other firms/business. Diversifications can be vertical or horizontal depending on whether the firm has bought into its supplier or a product with which it has some synergy.

Distribution Channels

The ability of selection of the type of distribution network as also the actual dealers of the product to cover the geographic segments is of vital importance for the success of the firm, especially for consumer goods. It is the last link in the chain connecting the manufacturer to the consumer and the only one which gets the buyers money in exchange of goods supplied.

Pricing Policy

Pricing policy is governed by the following considerations:

ELASTICITY OF DEMAND

Does the price change affect the product demand or not; the firm if they are marketing in multiple segments must be fully aware of the demand changes in each segment on variation of price.

GOVERNMENT'S PRICE REGULATIONS

In some products, the government has its own price mechanism, especially in food and drugs, and firms must take this into consideration while fixing the price.

COMPETITORS

Price becomes a function of competitive pricing, unless the firm can claim a higher price based on their better brand equity.

PRICING AND PROMOTIONS

Short-term extra benefits are given to customers, which reduce the profits for the firm, but gain additional market share. Such increases are mostly short-lived as they invite competitive reaction nullifying the increase in the market share. At times the commission given to the channel members change as the firm expects the channel members to pass on the benefits to the customers, putting a smokescreen before competitors, giving the impression that they are not involved in any price war on their own.

PRICE AND QUALITY

For premium-quality goods, high prices can be kept with high-brand equity, for low-quality goods keeping high prices could be the means of getting quick profits before competition catches on. Keeping low prices of high-quality products would mean generic product, high growth market and firms wanting to improve its market share. Low quality low price would be for bargains and discounts often times to unload extra inventory.

PRODUCT STRATEGY

It should take the product's brand equity, stage of its life cycle, competitive products, production capacity/or product availability (heavy advertising and promotion will fall flat if the product is not available, unless the firm is trying to create artificial scarcity to increase demand).

ADVERTISING AND PROMOTION

Creating product awareness, leading to interest in owning it can be generated through intelligent use of advertising, which does not oversell the product and remains in the realm of plausibility. Besides, personal selling, publicity and promotion have definite roles to play in market communications. The audit judges the efficacy of these communications with the market segment.

ORGANISATIONAL BEHAVIOUR IN INTERNATIONAL MANAGEMENT

In a firm people work, individually, in teams and there is interaction between people, which is both sideways and two ways vertical. Instructions from one side, reports from the other and overlap of authority and work jurisdiction create conflicts, which if not nipped in the bud become gigantic problems for the management of the firm. Hence, organisational behaviour has assumed great importance in the success of a firm and it needs separate study, which is undertaken in the following manner:

Manager, Supervisor and Worker

Individual behaviour depends on the person's education, knowledge base, skills, experience relevant to his present situation in the firm, family background, family life and any negative history (say, of violence).

Energy and Motivation Levels

Extra money, perquisites, promotions, better working conditions, good health, growth prospects are the motivating factors, while the opposites are the factors that sap energy. Understanding the trigger points of what really motivates an employee helps in proper alignment of these factors. For example, a supervisor may be better motivated if instead of getting an extra Rs 2,000 he is given a company motorcycle. The strategic audit should look from the point of view of Maslow's hierarchy of human needs and the correct motivation points will emerge on their own.

Attitudes towards the Firm and Each Other

People perceive events, actions and even ideas differently, depending on their own mindset of the moment. Employees' biases can be the eye-openers for the management, which can help in team formations, identifying the lead players, motivators and de-motivators.

Team Work

As teams are formed, they go through the storming process where individual expectations, frustrations and strong beliefs are brought out in the open. Later on, the normalising process takes place when the team starts performing. First, the team is just a group of people; what gels them into a team is the common goal, the unitary direction they all need to take, even while performing multifarious tasks connected with their goal. The problems in group work arise due to the following reasons, which must be considered during the audit:

- In teams, even intelligent people, experts, tend to take the easy way out to remain non-controversial as they believe that accolades or blame would all be shared by the team.
- At times, individuals by habit or because they have an axe to grind, dominate the team and get the decisions based on their plans.
- Team members tend to shy away from voicing opinion to show solidarity with what the management has created as an elite team.

Team Controls

There are power groups within teams, which dominate it; in order to resolve this issue the firm has to consider the following:

- The team leader may plan a reward and punishment system for its members.
- Team can be controlled by the leader's charisma, his work style, his sense of fairness, his far-sightedness and his tolerance level for mediocrity.
- Teams can be controlled by thorough planning where each task is well defined and assigned to the person capable of performing it even with a stretch.

FINANCIAL ANALYSIS

The audit must take into account the fact that financial analysis is the starting point of the audit, as also of the management's decision-making process. Considering the entire picture is a massive task; the audit should take only the most relevant figures, accept the limitations of the study and then only give the recommendations.

Income and Balance Sheet

The balance sheet is the mirror image of the firm as it reflects its strengths and weaknesses, at a given point of time, usually at the end of the financial year of the firm, which is 31 March for most Indian firms. From the audit viewpoint, monthly trial balance, which may even be unaudited by the firm's statutory auditors, would suffice. The balance sheet gives the firms resources, its debt and equity base, its assets and liabilities. It tells about the financial health of the firm. The audit could define and also design the resource needs of the firm and its justifiable allocation.

Business Audit Checklist

The checklist covers the essential points of any business plan or strategic audit. All the points are not relevant for every firm. Certain points are for start-up firms, others for on-going firms. Certain points are for service industries as compared to product firms. There is a separate list for firms offering equity to the market.

The checklist would be found useful in the following areas:

1. Preparing a comprehensive business plan by presenting the required relevant information on the format as per the checklist.
2. As a questionnaire while interviewing the firm's employees to gather information to prepare documents needed for the marketing audit.
3. For evaluating the business plan or the firm's strategies as it provides specific points for evaluation. It is not required that the checklist format be adhered to completely but the evaluators would find it appropriate to stick to the checklist to the extent possible.

Summary Checklist

The audit team should get to know the company before it starts the actual audit, as per the following list:

Brief statements on the firm:

1. Activities
2. Management
3. Performance
4. Special features of products or service
5. Market growth
6. Financial projections
7. Amount of money needed now
8. Form in which the money is needed—equity, debt or both
9. Purpose for which the funds are needed
10. Is the proposal made by the firm so far understood by the evaluator?
11. Is it interesting enough?
12. Will it stimulate investments?
13. Business it is intending to enter
14. Products/services
15. Prospective customers
16. Physical area of operations
17. History of the firm; when was it formed?
18. Product selection methods
19. Business development process and roles played by the CEO and other top managers in it
20. Present plans of business expansion—sales
21. Profits
22. Return on investments
23. Information on setbacks and losses
24. Type and extent of losses and plans for avoiding recurrences
25. Information missed out in the questions so far
26. Main competitors
27. Competitors' performance
28. Competitors' profit and loss
29. Competitors' forecast for the year regarding sales and planned profits
30. New entrants and exiting firms with reasons for both

31. Major trends affecting business
32. Economic trends
33. Social trends
34. Technological trends
35. Regulatory trends
36. Description of products in demand; what needs they will satisfy
37. Diagrams, pictures, sketches
38. Distinctive features as compared to the competition
39. Advantages feature-wise
40. Disadvantages feature-wise
41. Proprietary position
42. Patents
43. Trade secrets
44. Other proprietary features
45. Product's early launch and its advantages
46. Potential
47. Extension of product line
48. Development of related products and services
49. Customers
50. Who are the buyers?
51. Where do they buy the products?
52. Why do they buy the products?
53. When do they buy the products?
54. Is there seasonality in business?
55. Rank by customer value
56. Price
57. Quality
58. Service
59. Personal contacts
60. Political pressure
61. Master list of customers and prospective customers
62. Reason for the firm's customers' interest in the product
63. Customers dropped or having no interest now
64. And reasons thereof (why there is no interest)
65. Plans for overcoming the negative reactions
66. Size of the market segment
67. Number of products on demand
68. Demand in rupees
69. Source of information
70. Is the information from the dealers, sales team, customers?
71. Next three years demand projection, factors affecting the demand
72. Industry trends
73. Technological developments
74. New or changing customer needs
75. Review of the previous trends
76. Differences between past and present trends
77. If there is no change in trends identify the reasons thereof

78. Competitive products and services
79. Strengths
80. Weaknesses
81. Data for competitive analysis
82. Product comparison with the competitors
83. Price
84. Performance
85. Service
86. Warranties
87. Other features
88. Competitors' management strengths
89. Marketing strengths
90. Operational strengths
91. Finance strengths
92. Recent trends in market share
93. Sales
94. Profitability
95. If competition has failed, why will the firm succeed?
96. Why do customers buy from more than two or three competitors?
97. Strategy for taking customers from the competitors
98. Major customers ready to buy from the firm
99. Extent of commitment in numbers and rupees
100. Estimated market share in numbers and rupees
101. Market share in the next two years and by quarter
102. Last two years' sales
103. Correlation with assessment of customers

Marketing Plan Checklist

HOW THE FIRM PLANS TO ACHIEVE THE SALES TARGET

- Sales and service policies.
- Pricing policy.
- Distribution plan.
- Advertising and promotion plan.
- What is to be done, when and by whom.
- Public relations plans.

Design and Development Checklist

1. Feedback from market research on product specifications and demand.
2. Time and costs involved.

3. Engineering, industrial and aesthetic design plan.
4. Special tooling.
5. Manpower and equipment needed.
6. Software and hardware required.
7. New skills needed.

Costs Planning

1. Labour
2. Materials
3. Consultants' fees
4. Contingency plan on expenses

Operations Plan

1. Plant location
2. Location of major businesses
3. Availability of labour, wage structure and unions
4. Taxation
5. Transport
6. Communication links
7. Power and water availability
8. Raw materials and components
9. Land and construction costs

Capital and Working Capital

1. Debt–equity ratio
2. Capital base
3. Promoter's capital
4. Detailed project report
5. Overheads
6. Profit planning
7. Profit and loss forecast for the next three years
8. Cash flow projections for the next three years
9. Return on investment, profit on sales percentage
10. Cash flow with price increase and decrease
11. Ability to attract finance from the market and financial institutions

Management Team

1. Key personnel education experience and training.
2. Staff in different departments.
3. Organisation structure.
4. Duties, authorities and responsibilities of key people.
5. Role of consultants.
6. Profit, productivity, reduction in operating costs, living within the budget, benchmarking the performance of key people.
7. Plans for training.
8. Persons showing leadership qualities.
9. Management compensation packets, stock options.
10. Employee turnover.
11. Board of directors, their background.
12. Management check points, controls, Programme Evaluation and Review Technique (PERT), bar charts.

QUESTION FOR DISCUSSION

1. Discuss the role of marketing audit and how it helps in the integrated development of the markets in different host countries.

22 International Collaborations, Controls and Global Manufacturing

AIMS AND OUTCOMES OF THE CHAPTER

Globalisation of markets have affected the international marketing scenario to such an extent that outsourcing manufacturing to third countries has become commonplace as companies locate the most advantageous manufacturing place to take full advantage of location facilities like low-cost labour, availability of materials, skilled manpower and transportation facilities. This chapter recognises the importance of outsourcing and helps students learn the finer points in this regard.

INTERNATIONAL COLLABORATIONS AND CONTROLS

Organising international business can be achieved in many ways. The company could own the production and yet it could be either in the home country or in the host country. If the production base is in the home country, then international business is conducted by exporting goods to the host country. At the next level, the company can buy equity shares in a running company in the host country, which could be a wholly-owned subsidiary or partially-owned unit or a joint venture. There can be equity-based arrangements like giving manufacturing license to the host country's company, offering franchise operations or just having management contracts or at times turnkey operations as shown in Table 22.1.

Table 22.1 Equity Based International Operations

Production at	*Home country*	*Host country*
	Exporting	Wholly-owned operations Partially-owned with the balance widely held Joint ventures Equity alliances

Non-equity based arrangements in the host country are as shown in Table 22.2.

Table 22.2 Non-Equity Based International Operations

Non-equity based arrangements	Licensing Franchising Management contracts Turnkey operations

Companies like MacDonald's have franchise operations within their home country (USA) and have used the same method in their overseas ventures as well. At other times, companies find it cheaper to get another company to handle their operations, especially if the operations are on a low scale and the franchisee company has excess capacity in production and manpower. Companies use strategic alliances to fulfil their international objectives.

INTERNATIONAL OBJECTIVES

A company's international objectives are:

1. Increase in sales volumes through geographic expansion.
2. Acquiring new resources.
3. Diversification, both vertical and horizontal.
4. Reducing the risk of competitive actions.

Each company has its core competencies and at times some products do not fit in the company's strategic plans. Such products can be given out through licensing to others, both in the home country and outside. Companies may find the demand in one country not enough to justify its entry as other companies are also trying to get in there. Siemens of Germany and GEC of England joined hands to form GPT to operate in countries like India. Vertical integration helps in cost savings, while it needs to have resources and finances to manage the complete value chain. However, these joint ventures may become difficult if the host country's government has placed legal entry barriers for the company. Some countries may have problems with foreign operating companies' repatriation of profits earned in the host country. If legally permitted, the collaborations can gain competitive advantage because of their size, economies of scale, technology, brand equity and better control of channels of distribution.

COLLABORATION AGREEMENTS

The collaboration types depend on the company's outlay allotted to its foreign operations and therefore there are trade-offs needed in some cases. Licensing would need a lower foreign resource commitment than a joint venture. If the level of competition is low, it would give greater freedom for the choice of entry base in international business. If the home country office of the company handles the affairs, it would amount to a greater degree of control and no profit allocation to the foreign unit.

Licensing agreements give rights to the licensees for a given period against payment of royalty to the licensor by the licensee. Patents, inventions, processes of manufacture are provided through license agreements. Besides the licensee has the copyrights to intellectual property like literary, musical or graphic designs. The licensee has access to methods, procedures and systems of the licensor. This helps the company to enter a market quickly at lower costs. Licensing agreements can have provisions for restricting the licensee on markets including exports, exclusivity of license, production value limits and maintenance of quality standards. There can be restrictions imposed by the governments of the licensor's home country and the licensee's home country. The level of competition can be the deciding factor too. In high-technology products, a company has to assess the possibility of the host country's company's ability to absorb the technology.

Franchise agreement differs as they provide for the use of trademarks of the licensor and continued update of technology and other assets. The franchisers try to ensure standardised products besides management systems. However, at times, these do not get the right reception in the host country. MacDonald's had to eschew the beef product line in India and redesign some of their products with a local flavour.

Management contracts are made when the host-country company is not able to manage efficiently and invites a foreign company to takeover its management. Turnkey operations are usually made by construction firms like the Japanese company that took up building of the bridge on River Yamuna in Delhi.

Joint ventures need not be equal equity partnerships. It could be formed with two companies from the same country joining hands to form a joint venture to operate in another country. Long ago ESSO and Mobil formed a joint venture known Standard Vacuum Oil Company to operate in India and elsewhere. Foreign companies can join hands with a local company to enter the country. For instance, Daewoo joined hands with the DCM Group to set up Daewoo Motors. Before that DCM had a joint venture with the Toyota Motor Company. Some companies just take minority shareholding in the host-country company to get a foothold in the host country for testing the markets before embarking on full-fledged operations.

Joint ventures are not always successful; as the partners do not give equal importance to the venture and have different objectives for it. At times they do not provide the venture with the required resources or directions and try to extract maximum benefits even when the finances do not allow it. Cultural differences are hindrances in the smooth running of joint ventures. Only with experience can joint venture partners learn to evolve operating methods and an organisational culture acceptable to both partners.

INTERNATIONAL BUSINESS CONTROLS

The major decisions that a company going overseas has to take are:

1. Locations where decisions are to be made.
2. Methods of gaining global competitive advantage.
3. Reporting systems between home office and field offices in the host countries.

Controls on foreign offices are difficult due to the distance involved between them and the home office as communication and travel is expensive and time consuming. When a company deals with several countries, it has to understand the diversities of culture, economic levels and consumer behaviour between them. Besides this, the company may face several other problems in the host country. The host country's government formulates laws that support the local business. There are stockholders from the host country that have their own agenda. The business environment keeps changing rather rapidly in host countries for the company to be able to formulate a standard long-term plan. However, most companies operating at an international level use the following control process in their operations:

1. Country-specific organisational structure.
2. Levels of decision-making.
3. Planning to include the control points and reporting systems.
4. Special country-specific areas.

Controls are made by comparing the actual situations with the pre-planned objectives on areas like sales, increases, higher mark-ups and amortising fixed costs on larger volumes. Controls can be kept on resource acquisitions as the direct costs are reduced, tax advantages are gained and complementary resources are acquired too. Objectives like diversification of markets and products can be seen from the control viewpoint. Objectives like reducing competitive strengths are achieved by obtaining the much-needed resources and depriving the competition of the same.

A company's resources like cash flow needs for the present and in the future need to be understood and compared for controlling the same. Profit and dividend plans, availability of capital and strength for borrowing additional capital are areas of study and control.

Companies have to keep assessing their employees' general and product-specific skills, special abilities, cross-functional operational ability, attitude to foreign operations, besides their ability for obtaining additional resources when needed and utilisation of manufacturing capacity.

A company has to look for the adaptations needed in products for the international markets, primary and secondary demands, full utilisation of capacity, cost reduction through economies of scale and the transport situation.

A company has to understand the business environment and its effect on areas like supply and costs in foreign trade demand patterns and cycles, market share of the competitors and the attitude of the society about its products.

A company has to understand the local tax laws, receivables and payables situation, that is, the credit to be allowed to buyers and the credit being given by the suppliers. Besides, the company should know if the buyers or the suppliers need to be financed. The host-country government may also have their plans for fund usage, like a specific percentage must be spent on research and development (R&D).

A company should get the market data at a reasonable cost besides they should know the prevalent distribution system for the product. It is useful to know the level of competition and the competitors' market shares. It is good to know if there are governmental rules that fix the prices or the cost of advertising efforts. A company should know about the stability of the government and economic strength of the host country. They should know the country's attitude towards international companies and their products.

A company has to give its priorities to value added services like their geographic location, market geographic locations, its level of involvement in the host-country operations, global or multi-domestic marketing, global moves and strategies, strategies on products and services for the specific market and priorities for these from among the possible alternatives.

The control points start with setting targets on sales, production and on costs and then comparing the actual figures with target figures. The control report should depict clearly the deviations in actual from the objectives. Companies must adhere to their own policies or follow the host country's governmental laws on environment protection in their processes and products. Wherever possible, requisite corrective steps should be built in, in the control reports. Companies should maintain contingency plans for unknown eventualities.

GLOBAL MANUFACTURING AND SERVICE ORGANISATIONS

It must be understood that with every product there is some service involved and with every service there is a product. The ratio of product is higher in consumer durables and fast moving consumer goods (FMCG); they usually need large manufacturing facilities and are capital intensive. The output in product groups can be measured and quality checks are easy to organise. Conversely, the services are more intangible and perishable. (You cannot carry the airplane seat with you on disembarking. An empty seat on a plane loses its fare and hence perishes.) The output of service cannot be placed under inventory. The customers are in close touch with the service provider, while in products the customer comes in contact only with the retailer. Service as a product is usually labour-intensive and its quality checks are difficult.

Multinational corporations (MNCs) have to decide about the location where the components would be made, sub-assemblies arranged and where the final assembly would take place, as these may not be necessarily at one location. The decisions on these points are taken by taking the following into consideration:

1. Cost of labour and its efficiency levels.
2. Cost of money supply.
3. Availability of raw material and their costs.
4. Infrastructure availability.

5. Transportation costs to the markets and from the raw material components and sub-assemblies production areas.
6. Trust and dependability of the supplier group—company's own or outsourced.
7. Level of awareness of quality requirements.
8. Flexibility of activities.
9. Level of innovative activities.

Production efficiency would help reduce the cost of products, as it would cut down the rejection rate and the cost of rework. Raw material availability would help in saving time in their search as well as reduce transportation time. Without proper infrastructure, the company would be handicapped in communications with the home country, with the suppliers, buyers, bankers and with the other stakeholders. Trust and dependability helps in building long-term associations with the host-country organisation for mutual benefit. As the company sells on its brand name, which is singly characterised by the product and its service quality, it is imperative that the host-country unit understands and remains focused on the company's quality requirements. As the market is not a static entity, the manufacturing unit must be flexible enough to react quickly to the demand from the market with as little lead time as possible. While the company may depend on its home country R&D, it is an asset if the host unit is also prepared to modify the product to suit the market.

Once the country has been selected, it becomes necessary to select a location along with the production scale. It would call for an assessment of the market needs of the areas or even countries the company wants to cater to, from the facility. The choice of process would follow once the size of operations has been decided. Companies in USA have found outsourcing a viable option in case of several products like shoes. Starting from Nike to Adidas, US firms are getting shoes made in Far Eastern countries like Taiwan, Korea, Hong Kong and the Philippines. They are getting software developed in countries like India. This brings the companies to the subject of vertical integration, where either upstream or downstream products are added on to the manufacturing list. For instance, a car maker can take up the making of car seats as well. The company can plan coordinating the activities of its various R&D activities that could be placed in the home country and some host countries as well. The manufacturing processes can be made uniform based on the home country's facilities or could be modified in the host countries taking the level of manufacturing technology available there into account. Companies can decide to have manufacturing only in the home country and exporting products from there to the markets worldwide. They could opt for independent manufacturing bases in different host countries, as per market needs and logistic support availability. They can plan both global manufacturing as well as regional manufacturing to suit the market needs. Availability of raw materials, low-cost skilled labour and low-cost finance are other factors that guide companies to plan overseas production. Companies can shift manufacturing to countries where the technology is available at a reasonable cost and/or the market is in close proximity. At times, the home-country governments provide incentives to outside companies for setting up manufacturing bases in their country to obtain technology, increase job potential and improve the country's gross national product (GNP). If the company finds that the host-country manufacture is lower in cost as compared to home-country manufacture, they could import from the host country to sell in the home country.

A good example of such outsourcing can be seen from the British Raj in India when the raw materials from India like cotton, wool and iron ore were exported to the UK and after they got converted into finished products they were imported to India, giving the entire profit to the UK companies that were engaged in the conversion process. India suffered due to its political handicap of being a slave country.

Today, however, locating the manufacturing unit would depend on several factors, which are:

1. Cost of transportation of raw materials, components and finished goods.
2. Import duties on components.
3. Import duties on finished goods.
4. Market proximity.
5. Economies of scale possible.
6. Risk of currency fluctuations.
7. Availability of technology.

The actual process of manufacture would depend on the levels of technology available and the cost of labour in the host country. If the cost of labour is low then the manufacturing process can be labour intensive and if the labour cost is high then it may be better to have lot of automated process with, perhaps, robotics involved. Cost and availability of land, availability of essential infrastructure like power, water, telecommunication, roads that are motorable and proximity to railhead, ports and airfield are also factors to be considered. Manufacturing layout normally takes a standard pattern that reduces backtracking of semi-finished goods and yet some of the considerations stated earlier can cause changes in the same.

A major issue in outsourcing remains the quality level of manufactured product in the host country. While quality is usually determined by the company's norms, the actual implementation and enforcement of quality standards have to be left to the host country units. Most companies assign their trusted quality assurance persons to host-country operations to maintain uniform quality standards with the home-country production. Companies have resorted to total quality management (TQM), a concept that empowers workers to ensure maintenance of acceptable quality levels. As a process, TQM is meant to arrange manufacturing with zero defects. This saves on reworking expenses, besides improving the cycle of manufacture and enabling lower lead time for dispatches of finished goods. The TQM process continuously improves the process of manufacture as the workers themselves keep experimenting for making improvements happen. Zero-defects manufacture helps in lowering the manufacturing costs as the rework time is reduced to zero. Companies may have to invest in manufacturing equipments of higher technology that result in lowering defects and improving the product quality. Manufacturing costs run into the costs of making plus the cost of defects, customer returns of defective products and cost of repairs. With zero defects, the manufacturing costs have no elements in it other than the cost of manufacture.

Hence, it can be summarised that TQM remove defects through continuous improvements at all levels of the organisation. Apart from manufacturing, TQM also covers purchasing, sales, human resource management (HRM) and finance.

Today the ISO 9000 certification is essential for non-European companies wanting to do business in Europe. The ISO series is about a company documenting their entire process and keeping records at each stage of their operation to show interested persons that they are adhering to the process they have adopted for their operations. The types of ISO certification given are as follows:

ISO 9001

It is issued if the company has comprehensive and detailed standards for design, development, production, installation and servicing.

ISO 9002

It is issued for companies having standards on production and installation.

ISO 9003

It is issued to companies focusing on final inspection of the products and testing.

GLOBAL OUTSOURCING AND MANUFACTURING

Companies have several options like getting components from other countries and assembling them in the home country for local consumption and for exports. Companies can arrange components in a host country, assemble the product there, import them into the home country and export to other countries as well, as given next:

1. Outsourcing material, assembly in home country, host country/countries or both.
2. Manufacture of components, assembly in home country, host country/countries or both.
3. Product sales in home country, host countries/countries or both.

Most companies prefer to use home country raw materials and components as it helps in avoiding problems of distances, political problems, currency fluctuation problems, tariff variations and problems arising out of dealing with different languages. However, companies keep looking at global sourcing to reduce costs and for improving the product quality. Finally, outsourcing should provide the company with cost reduction, quality improvements, increased access to international state-of-the-art technology and improvement in reliability and delivery process.

According to the Ford Motor Company, they have an extensive global network for obtaining components needed in the two manufacturing facilities they have in Europe. For example, some of the components they get from the UK are clutch, ignition, oil pump, speedometer, battery, steering wheel, fuel tank, glass and locks. The other locations they outsource the manufacture of components to are:

1. Austria: Tyres, radiators and heater hoses.
2. Belgium: Tyres, tubes, seat pads, brakes and trims.
3. Italy: Cylinder heads, carburettors, glass, lamps and defrost grills.
4. Canada: Glass and radio.
5. Japan: Starters, alternators, rollers and cone bearings and windscreen washer pumps.
6. Norway: Exhaust ranges and tyres.
7. Sweden: Hose clamps, cylinder bolts, exhaust pipes, pressings and hardware.
8. Denmark: Fan belts.
9. Switzerland: Under chassis coating, speedometers and gears.
10. Holland: Tyres, paint and hardware.
11. United States: EGR valves, wheel nuts, hydraulic tappets and glass.
12. Germany: Locks, pistons, front discs, distributors, weather strips, rocker arms, speedometers, fuel tanks, cylinder bolts, cylinder head gaskets, front-wheel knuckles, rear-wheel spindles, transmission cases, clutch cases, steering columns, batteries and glass.

13. France: Alternators, cylinder heads, master cylinders, brakes, under-chassis coating, weather strips, clutch release bearings, steering shafts and joints, seat pads and frames, transmission cases, clutch cases, tyres, suspension bushes, ventilation units, heater hose clamps, sealers and hardware.

As can be seen, the company has, for certain critical components, arranged for more than one source of supply, while they have just two production bases, both in Europe—Halewood, UK and Saarlouis, Germany.

Companies add foreign suppliers to the domestic ones for ensuring reliability of supplies. In some cases, the technical expertise may be available only overseas along with capacity to supply the components as per the company's requirements. Outsourcing overseas could allow the company to get better quality components. Besides it could help in fighting competition from home suppliers' base from where other manufacturers also obtain their components. It helps in opening up the international markets to the company. Moreover, if the competition is outsourcing their components, the company should find out the economic viability of doing so and then plan its own offshore sourcing.

Companies have to take a stand on making the products or buying it for sale. At times, some components could be made and some others could be bought out. Companies could go for vertical integration and get into manufacturing of the downstream components. The other option is to just buy them from outside suppliers. Outsourcing should be resorted to where the supplier has the advantage of economies of scale, better technology, has a lower manufacturing cost structure or incentives for higher levels of production. Components that are critical should be outsourced with great care as it would bind the company to the source that could play truant by not supplying on time and pressurising the company for better prices and cash payments. The quality management of the suppliers need careful scrutiny and at times may need imparting training to the suppliers' engineers in proper testing methods and the value of TQM. When the suppliers can provide quality products, constantly upgraded technological innovations and economies of scales translated into price reductions, the company can look for long-term relationship with such suppliers. At times, when such a supplier has been found, the company would be tempted to vertically integrate the supplier in its own ambit. Else, the company can opt for long-term agreements, cooperation in technology upgradation, finance, manpower planning and management expertise for maintaining close contacts where the supplier feels almost one with the company. In such a scenario, the company can even change the components, their specifications and yet get the same at a low price, enabling the company to plan new models at competitive prices. The value chain can in a way become an arm of the company.

Companies have several options before them as they plan their purchase function. They can go in for totally local purchase when the controls are easier, time for obtaining supplies shorter and price negotiations can be conducted with relative ease, as the supplier is aware of the business ethos of the country. The companies can plan small supply sizes with lower cash requirements. And the latest 'just in time' inventory management becomes possible.

Next, the companies can selectively locate international component manufacturers, with the necessary qualifications to become suppliers. It could start as a one-off purchase deal and ultimately become a regular supply commitment from both the suppliers' side and the company's side. Finally, companies can plan global outsourcing strategies to obtain the benefits available in different part of the world, like some country might have better technology, another may have low-cost labour and yet another have easy availability of the required raw materials.

Companies use a number of ways for getting overseas supplies, like involving the home office purchase department to do the job. They could use foreign subsidiaries or business units for selecting the suppliers most suited for their operations. Some companies that have international offices use them for organising outsourcing in the countries they operate in. The most advanced companies use international outsourcing in an integrated manner for worldwide operations. These centralised operations are most useful when the money value of purchase is high, the components are of strategic importance, including the value of quality and if they have high technology inputs. The companies can plan to obtain up to 70 per cent of their requirements from one source. The supply agreements can also be on a long-term basis say of up to five years. The purchase actions could be centralised at the home office for keeping direct control on vital purchases.

INVENTORY MANAGEMENT AND JIT

Just in time (JIT) inventory management calls for supplies to be made in time when required for use and of good quality. Foreign sourcing becomes problematic when the companies are looking for JIT supplies. Economies in transportation, distances and language and cultural differences are mainly responsible for the problems. The JIT requirements comprise the following:

1. Understanding of the shipment size and consequent shipment frequency.
2. The company's policy on inventory management should be clearly understood by the purchase people as inventory or current assets block the company's cash reserves.
3. Lead time required by the supplier for supply batches.
4. Rejection rate of supplies and quality management of the suppliers.
5. Means and methods of communication available with the supplier.
6. Number of suppliers for a particular component, whether sole or multiple suppliers.
7. Supplier's record of timely supplies.
8. Suppliers approach to sudden changes in supply schedules.
9. Availability of shipping lines, air cargos and their frequency.

Uncertainties in shipment schedules cause inventory build-up increasing the costs. Ocean freight costs much less than air cargo but depending on the time schedule either option can be used. The JIT inventory management usually creates a one supply source situation, that commits to strict supply plans and yet global supply base almost forces companies into keeping an alternate supply source due to several imponderables associated with international suppliers.

FREE TRADE ZONES

Free trade zones are promoted by certain governments where tariff payments can be delayed or totally avoided. In these zones, storage and manufacturing can take place without payment of any duty. Having a large inventory in these zones does not block money meant for paying the duties and taxes. These could be industrial parks or distribution zones.

PRODUCT DEVELOPMENT

Companies operating internationally arrange their product development and new product launches through their international R&D facilities that may be spread across several countries. The R&D and manufacturing units may be in different countries and yet they have to keep interacting for getting the right product as needed by the customers and that too at the lowest cost. Such designing of the products gets the nearest possible fit, as the demands and variety required by different countries can be quite different from each other. National consumer tastes, preferences and sophistication needs can be met only with research establishments that span across national boundaries.

SUMMARY

Production management is responsible for the conversion process that converts the raw materials and components into saleable products. As expertise of manufacturing, availability of raw materials and components and skilled labour for different products may be available in different countries, companies have to take decisions regarding the location of their manufacturing units. Proximity of markets and money supplies at low cost are major considerations in this regard, besides the host country's government's laws and attitudes towards foreign companies operating in the country.

Companies have to keep a strict vigil on the quality of products being manufactured in other countries. Outside manufacture can take place by having a joint venture with some local company. Having TQM and meeting the ISO norms are methods of improving quality and maintaining the same as per the customers' requirements.

Companies can start with home country manufacture and exports, followed by manufacturing facilities in other countries that can operate in the multi-domestic mode with autonomy. When offshore manufacture is widespread in several countries, then the company can create a global focus with a regional emphasis on product designs for the markets of different countries. At times outsourcing of component assembly can be done at two international locations to obviate the problem caused by any mishap at one location. Transportation costs play an important role in deciding the location of manufacturing units. The JIT inventory management in global outsourcing scenario becomes complicated as lead time variations and transportation time can be the deciding factors. Worldwide R&D can help MNCs in promoting the right mix of manufacture in different countries that could be catering to the needs of a vast variety of costumers.

QUESTIONS FOR DISCUSSION

1. Discuss the impact of MNCs on local business.
2. Discuss how the decisions of MNCs in one country impact business in other countries.
3. Discuss the difficulties encountered by MNCs because of differences in home and host country conditions.
4. Discuss FDIs and balance of payment and their impact on the home and host country's business.
5. Are countries affected by foreign control of key industries?
6. Capital induction by MNCs can become a bargaining power with the host country's government. Discuss.
7. What are the differences and similarities between domestic and international negotiations?

23 Understanding Case Studies

AIMS AND OUTCOMES OF THE CHAPTER

Case studies are the ideal learning aids for the subject of international marketing. This chapter deals with the methodology of handling case studies, followed by a selection of case studies that have been used in the teaching of this subject by several senior faculty members.

Case studies help students and the readers of the book to relate to the practical aspects of the theories given in the book. In fact, students can analyse the information given, find alternative solutions, assess the best option and then give their recommendations on the cases. It would be the task of the teacher or the guide to steer the students to the right path enabling them to arrive at the best recommendations. The following method is suggested for arriving at the recommendation stage:

1. Read the case cursorily in the first stage.
2. Study any figures or tables provided in the case.
3. Analyse the figures.
4. Study the case in detail again.
5. Use the tools available for analysing the case.
6. Write down a rough report.
7. Discuss the rough report with your guide.
8. Make a final report on the basis of the discussions.

The final report should have the following elements in it:

1. Title page.
2. Acknowledgements page, where you express your gratitude to those who helped you in the case analysis.
3. Table of contents with page numbers.
4. Executive summary of the recommendations on the case.
5. Brief information on the case.
6. Tools you are planning to use in the case study.
7. Case analysis.
8. Recommendations (with possible expected results, if possible) and conclusions.
9. Glossary of important words used.
10. Bibliography.

Students must understand that while solving case studies, there is no absolutely right or wrong answer. The areas to look for are the following:

1. The student has understood the case and its problem areas well.
2. The student is using the right tools in solving the case.
3. The student has analysed the figures and tables given in the case (if any).
4. The student has presented his recommendations in a forthright and unambiguous manner.
5. The recommendations need not be many, but they should be hard-hitting and direct.
6. The recommendations must arise out of the case analysis and the tools used. Any major deviation, which is not explicitly mentioned in the case, must be stated clearly with reasons for the same.

CASE STUDY 1: RAYCHEM CORPORATION USA

Raychem is an American firm involved in the manufacture of chemicals. It has a strong research and development (R&D) department and a large product range. Managing the product portfolio is a major concern at Raychem. They have to keep a balance in product push in the market through heavy inventories. Their products also demand in the market and market pull is created through advertising.

The corporate strategy is to grow at the rate of 25 per cent each year. The marketing plans are as follows:

1. Products: To meet customer needs.
2. Price: What the market can accept.
3. Placement: Worldwide.
4. Promotion: Well-trained staff.

As the firm's goal is steep, 25 per cent growth per year, they have to go for aggressive marketing and prompt and proper service. They have realised that even with these plus points, the target can be achieved only when customers across the world know about them. They have been doing research on a hit-and-miss basis. Some areas are well researched while others have been totally neglected. They have created technological entry barriers for newcomers in their field.

They plan to have excellent direct mail programme as other media are too expensive for worldwide exposure and not too effective either.

In firms engaged in commercial products such as Raychem, image-building advertising is necessary. It is important to conduct advertising research to understand how the consumers process the information provided in the advertisement and how they perceive the advertisement. Information is also needed to know about the attitudes of the consumers and any changes therein due to the campaign. The research should make you aware of the consumers' behaviour towards competitive products. Advertising research is a part of marketing research, confined to development of advertising plan, creative work, market segment and the best possible media, which would cater to the segment. The research should increase the effectiveness and efficiency of the advertising campaign. Data collection is done from primary sources as also secondary, already available sources. In primary data collection, it is important to select the sample correctly. The research steps are:

1. Setting up goals for the research.
2. Finding out the sources of secondary information/data.
3. Analysing secondary data.
4. Planning sample for primary research.
5. Data collection.
6. Data analysis and report writing.

Task for Students

Prepare an alternate plan for aggressive marketing and advertising to enable the firm to reach its steep goal.

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CASE STUDY 2: GILLETTE, THE INTERNATIONAL BRAND

Gillette's vision is of being a world class firm with world class people, products and brands. The firm's mission is to be a global leader in products marketed by them. They operate in 200 countries with manufacturing facilities in 56 countries. The firm's core businesses are:

1. Blades and razors: Gillette, 7 O'Clock, Wilkinson Sword.
2. Batteries: Duracell.
3. Personal grooming products: Braun, Silkepil razors for women.
4. Oral care products: Oral-B.
5. Writing instruments: Parker, Papermate, Waterman.

Gillette's strategic marketing plan for success includes making a five-year rolling plan, which is reviewed three times a year and modified as required. Every six months, sales forecast is made.

Gillette's philosophy can be summarised as follows:

1. Keep introducing new products and 50 per cent of their business must come from products, which have been introduced less than five years ago.
2. Technical superiority in every product. Gillette considers competition as a spur for customer retention.

Gillette's game plan is as given next:

1. Keep the user/customer at the centre of activities.
2. Provide improved products—gain increased net sales.
3. Have pricing options by improvement in products.

Gillette considers the following as their key growth areas:

1. Value addition in existing products.
2. Speedy launches of new products.
3. Distribution network.
4. Display and merchandising.
5. Advertising and promotion.
6. They keep a close watch on standard direct costs and post-marketing expenses, which can be considered controllable overheads.
7. Synergy for efficiency and effectiveness.
8. Profits through information technology (IT) driven total quality management (TQM) and people's involvement.

Gillette has developed a marketing strategy for facing recession in the market. They view the impact of recession on the different segments of the market as follows:

1. Consumers: Their demand reduces for non-essential articles and they switch to value for money products.
2. Trade: They suffer from inventory blockage of non-essential products and they end up with heavy stocks of a variety of products.

3. Firm: It loses customers as also trade/distribution channels who show little interest in the products.

Gillette's policy for marketing during recession is that of *pause*! They believe in operating in the following manner:

1. Basic marketing strategy does not change.
2. They organise better management of resources and plan tactical moves.
3. They provide value addition; when consumers downgrade, Gillette provides added value to the product; they reinforce the advertising messages; improve the product package.
4. They arrange new product launches to increase user share and also upgrade the users.

The result so far has been that Gillette has grown even during recession periods.

Task for Students

Is the firm justified in upgrading their products and charging more when the customers are finding it hard to pay their existing prices? Discuss their policy for success.

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CASE STUDY 3: HINDUSTAN ELECTRO-GRAPHITES THE INDIAN INTERNATIONAL BRAND

The Indian graphite industry is a Rs 7 billion industry, which has garnered around 10 per cent of the world trade of the product. It is also an industry that has continued to grow even when the entire industry and business, both worldwide and in India, has been shrinking for the last decade. The graphite electrode industry has its fortunes linked to that of secondary steel production through the electric arc furnace (EAF) technology and other factors like the structure of domestic industry, electrode production technology and costs, exports, accessibility to raw materials and customers. India beats the developed countries of the world in terms of cost of production because of its lower fixed costs, labour and overheads.

The Indian graphite electrode industry has only three major domestic players. Hindustan Electro-Graphites (HEG) Ltd is a leading graphite electrode maker and also operates the single largest graphite electrode plant in South Asia. Supporting a global perceptive, the firm has decided not to restrict itself to the domestic market and it aims at achieving a respectable market share worldwide.

The strength of HEG includes possession of sophisticated electrode manufacturing technology, ISO 9002 certification, competent workforce and management. It faces reduced risks of the business cycle because of horizontal diversifications, deep financial resources and related backward diversifications.

Its weaknesses include dependence on imported raw materials, high levels of inventory, poor cash flow, stiff and bureaucratic organisational structure and weak R&D.

Intense competition, exchange rate fluctuations, changing technology, high bargaining powers of customers and suppliers are some of the threats facing HEG.

The growing demand for graphite electrodes in fast developing countries, HEG's global experiences and image and installed production base are some of its plus points.

The Indian graphite electrode (GE) industry is concentrated as there are three major players in India. Between them they share a Rs 700 crore market. The Jhunjhunwalas and the Bangurs share the battleground. The Jhunjhunwalas own the country's largest GE factory HEG. The Bangur Group, through its own firms Carbon Everflow Ltd (CEL) and GIL, are the biggest in the GE industry in India. The total installed capacity of the three companies—HEG, GIL and CEL—is 54,000 tons. Hindustan Electro-Graphites has a 40 per cent share and the other two have the balance.

The biggest threat today is imports, which are eating into the market of the domestic players, as imported GEs are available at much lower costs. This has happened after the rationalisation of duty structure, which went against the domestic industry.

The imports and exports of GE is given in Table 23.1.

Table 23.1 Imports and Exports GE

Year	*Imports in tons*	*Exports in tons*
1993	475	11,148
1994	500	15,003
1995	3,080	17,001
1996	5,500	18,291
1997	4,000	21,000

The dramatic increase in imports since 1994 was primarily because Chinese producers were dumping their products in India at a low price of US$ 1,100 per ton, while the average price in the international market was US$ 2,600 per ton. In 1997, dumping duty was imposed on China and there was a drop in the total GE imported in the country in 1997.

At present, the scenario can be described as being between the devil and the deep sea. At a time when domestic players were fighting to create a strong base, infiltration started. These foes are none other than the mighty international players, while Indians are fighting for survival. The present situation is not a happy one as the Indian players have been crying hoarse about international players resorting to dumping practices in India while the government has not done anything about it. Duties on imported electrodes have been reduced.

The fact that the user industry, the steel industry, is doing reasonably well, does not ensure good days for the GE industry. The main cause of its sufferings is the size of the GE industry. While the government provides the steel industry concessions, the GE industry does not get any.

Hindustan Electro-Graphites is the leading GE maker and it also operates the single largest GE plant in South Asia. It is an ISO 9002 firm. The firm has its GE plant at Bhopal. It has facilities for GE production and specialties, set up in technical collaboration with Societe Des Electrodes ET Refractaries Savoie (SERS), a subsidiary of Pechiney of France. It is India's largest exporter with 55 per cent of its produce being exported to more than 40 countries of the world.

Hindustan Electro-Graphites vision statement is quite powerful:

1. Vision: To have a global perspective.
2. Mission: Never restrict to the domestic market and aim at achieving a respectable world market share.
3. Goals: Investments to be made for new facilities for growth in market share. Product mix to be expanded with quality improvement.

4. Objectives: The major thrust is on producing GE at low cost and focus on higher segment of the users ready to pay the price for a better quality product.

The market segments of HEG are:

1. High-efficiency product segment of Essar Steels and TISCO in India, Sigri of Germany and Ucar Carbon of USA.
2. The middle segment wants a value for money product.
3. The lower-end segment is the one competing with the Chinese players.

Hindustan Electro-Graphites has defined its marketing policy in the following way:

1. Ensure full customer satisfaction with prompt service, courteous behaviour and motivate the employees for such efficient service.
2. Locate customer complaints and nip them in the bud.
3. Build relationship with the customers.
4. Work at the relationship all the time.
5. Keep generating enthusiasm in the customers with special attention, gifts.
6. Approach new customers and provide them with prompt courteous service.

The company is focused on providing value to the customers and not just satisfaction. Customers are retained through superior service and products. New customers come through HEG's efforts and word-of-mouth publicity provided by its customers.

Hindustan Electro-Graphite has selected the following foreign markets where they have got a good market share:

1. North America
2. South America
3. Europe
4. South East Asia
5. Middle East

The company does business in 40 countries including:

1. USA
2. Canada
3. Italy
4. France
5. Australia
6. Taiwan
7. Singapore
8. South Korea

A SWOT analysis of HEG is as follows:

1. Strengths: Leading GE maker in India with 45 per cent market share. It exports 55 per cent of its produce. It exports its products to 40 countries. It has ISO 9002 certification. It has strong finances and management.

2. Weaknesses: Dependence on imported raw materials, heavy inventory of finished goods due to recession, poor R&D.
3. Opportunities: Growing demand of the product in developing nations. It has global marketing experience.
4. Threats: Severe international competition, including from China. The demand for GEs is a derived demand and it depends on the demand of the steel industry, which fluctuates with the country's gross national product (GNP).

Michael Porter's Five-force Model analysis reveals the following about HEG:

1. Threat of new entrants is less as the industry requires huge capital; existing players have achieved economies of scale.
2. Supplier's have great bargaining power as they are well organised and few in number.
3. Customer's bargaining power is high as the product is undifferentiated, has a large production base and imports are available at competitive prices.
4. The threat of substitute products is not there, but steel making technology is undergoing changes, which threatens to do away with GEs.
5. Existing firms' rivalry is intense as the product made is the same and is produced in large quantities by all the players.

The improvement opportunities and problems of the industry are as follows:

1. Middle segment has Chinese products where HEG had a stronghold earlier.
2. Changes in steel making technology.
3. Challenges of possible price wars.
4. Political instabilities in the world.
5. Success or failure of quality programme of HEG.

The marketing solutions are:

1. To fight the price competition from China, HEG should start building relationships with the customers, to enlighten them on the hidden extra expenses they have to undergo when they use inferior Chinese products.
2. The company should plan downsizing its operations to become cost effective.
3. Eliminate non-value adding tasks.
4. Arrange order-based production and inventories.
5. Organise cross-functional teams for greater coordination.
6. Along with international sales agents, HEG should start its own marketing operations in the countries it has a strong footing.

Task for Students

Define the goals that HEG should set for itself and the methods it should use for achieving the same.

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CASE STUDY 4: MICROSOFT INC. USA—THE WORLD LEADER IN SOFTWARE

Start any computer around the world and more than 90 per cent you will find that it is running on the Microsoft Windows operating system. The firm is as controversial as it is successful and influential. It touches the lives of billions of people and it has changed the way people manage and work in offices, homes, factories and how they correspond with each other.

If there is a firm that evokes intense feelings of love or hatred it is Microsoft! Its founder Bill Gates is already a cult figure worshipped and idolised by millions of young and old in the world. From a middle-class family, he inherited his acumen from his mother and shrewdness from his father. In just 20 years he has become the richest man on the planet. Where do they go from here?

Microsoft strives to produce innovative products to meet the evolving needs of knowledgeable customers.

1. Mission: Microsoft started in 1975, with a mission to create software for personal computers (PCs) that empower and enrich people at home and at their workplace, at schools and in laboratories.
2. Vision: Its early vision was to see a computer on every desk, in every home and it is now coupled with a strong commitment to internet technologies expanding the reach and power of PC users.
3. Values: Microsoft's values are enshrined in the following tenets:
   - Customers: Helping them achieve their goals by listening to them and quickly delivering new innovative products; building relationships based on trust, respect and understanding and service support.
   - Innovation: Moving with the speed of light for bringing new products in the market to remain competitive with reduced costs as well.
   - Partners: Helping them grow in their business.
   - Integrity: Acting with utmost integrity, Microsoft's team is guided by what is right for their customers.
   - People: The team must have an exciting challenging career with growth opportunity and well-balanced home and work life.
   - Entrepreneurial culture: The team must remain passionate about their work, contributing to the evolution of technology to remain competitive.
   - Diversity: The team is encouraged to participate in diverse activities, with equal chance of promotion and increments for the members.
   - Community: Microsoft feels responsible to the community in which they operate and wants to make a meaningful difference in its life.

Microsoft's finance as on June 1999 was as follows:

1. Net revenue: US$ 19.75 billion.
2. Net income: US$ 7.79 billion.

Microsoft's headcount and revenue growth is given in Table 23.2.

Table 23.2 Head Count vs Revenue—Microsoft

Year	*Headcount*	*Revenue (in US$ billion)*	*Percentage growth*	*Income (in US$ million)*	*Percentage growth*
1990	5,635	1.18	47	279	63
1991	8,226	1.85	56	463	66
1992	11,542	2.78	50	708	53
1993	14,430	3.79	36	953	35
1994	15,017	4.71	25	1,150	20
1995	17,801	6.08	29	1,450	27
1996	20,561	9.05	49	2,200	51
1997	22,232	11.94	32	3,450	57
1998	27,055	15.26	28	4,490	30
1999	31,575	19.75	29	7,790	79

The headcount is in the vicinity of 40,000.

Microsoft has been living in the shadow of its illustrious founder. While Bill Gates has many friends, his opponents believe he is shrewd and manipulative and wants to dominate the world. Microsoft needs to improve its image to come out of the predicament it faces today.

In 1995, the firm almost lost the battle of the internet to Netscape and Sun Microsystems. Microsoft was caught napping. Microsoft needs feedback from its marketing wing to their R&D to get information about the latest needs of customers. Microsoft must make more friends than foes. It should not consider that it itself a know-all firm. It could consider splitting into several smaller firms with independent decision-making under one overall umbrella.

International Business Machines (IBM) is reeling under competitive pressure and does not know what hit them. Microsoft must not fall into the same trap. If they do not learn from history then history is likely to repeat itself.

Task for Students

Discuss the strengths and weaknesses of Microsoft and recommend a marketing strategy which would help them in retaining their leadership position.

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CASE STUDY 5: INFOSYS TECHNOLOGIES LTD—THE INDIAN INTERNATIONAL GIANT

Infosys Technologies Ltd (ITL) is a leading Indian firm in software services and packages for exports and for the domestic market. Its clients include several Fortune 500 companies. The Indian software industry is fragmented with several players in the field. India's unique selling proposition (USP) in the global market is that there is a large English-speaking trained workforce, which is still available at a relatively low cost.

Infosys has grown in strength with special product developments like Y2K solutions in 2000, IntERPryz for Enterprise Resource Planning (ERP) and InEuro for Euro banking services. It is the first Indian firm to be listed on the US Stock Exchange, NASDAQ, after its successful issue of American Depository Receipt (ADR) in 1999.

The management of ITL is totally inspired by its mentor and former chief managing director, Narayan Murthy, and is characterised by the following qualities:

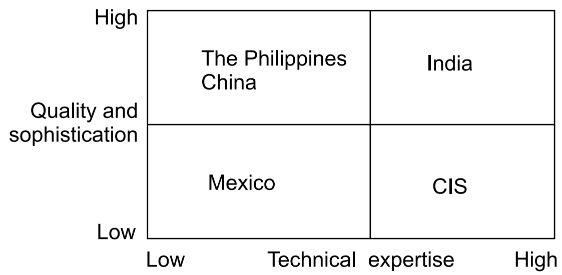
1. Technically-qualified professional management.
2. Having rich experience of large export orders.
3. Stakeholder-friendly approach.
4. Positioning in high growth areas.
5. Human resource policies for merit recognition.
6. Focus on core areas.

Till 2000, India had a boom time in the software industry. The events of 11 September 2001, however, brought the industry down, at least temporarily. India's competitive advantage in the field of software lies in the following areas:

1. Cost-effective software
2. World-class quality
3. High reliability
4. Rapid delivery

India's position can be seen from the following matrix given in Figure 23.1.

Figure 23.1 India's Relative Position in the Software World



Information about the revenue earnings of the software industry in India is given in Table 23.3.

Table 23.3 Indian Software Industry

Year	*1997*	*1998*	*1999*	*2000*
Exports (in US$ million)	1,755	2,700	3,900	5,700
Domestic (in Rs million)	63,100	100,400	158,600	245,000

In 1999, the growth of the industry was 46 per cent and it was expected to grow at 50 per cent, but the catastrophe of 11 September 2001 derailed the momentum of growth.

The top 10 software firms in India had the following turnover in million rupees in 1998 (see Table 23.4).

Table 23.4 Indian Software Companies

Position	*Company*	*Turnover (in Rs million)*
1	TCS	10,836
2	Wipro	4,816
3	HCL	3,455
4	NIIT	3,254
5	Pentafour	2,845
6	Infosys	2,576
7	IBM Global	2,428
8	Tata Infotech	2,117
9	Satyam	1,784
10	Patni Group	1,375

Infosys has focused on providing software services with branded products and has moved on to software products:

1. Service: Revenue from services is 74 per cent of total revenue of Infosys.
2. Branded services: Their share is 22 per cent.
3. Products: These account for just 3 per cent of the revenue.
   - Vision: The vision of Infosys is to become a globally respected firm, which provides best of the software solutions by the best in class people.
   - Mission: Its mission is to grow with protected margins by focusing on horizontal applications and vertical industries.
   - Goal: The goals of Infosys are to have development centres for software in different parts of the world to provide quality speedy solutions at affordable prices.
   - Objective: Its objective is to restrict revenue generation of any division to less than 25 per cent.

The competitive position of Infosys is shown in Figure 23.2.

Figure 23.2 Infosys Competitive Position

Market Share	High	Infosys Wipro	
	Low	Satyam NIIT	Rolta Pentafour
Market Growth		High	Low

Infosys is in the star position of the BCG Matrix.

The track record of Infosys is envious, with its shares surpassing the industry norms, including the ADR, which is also performing well in the market. Infosys could plan along the following lines to keep up its growth rate:

1. Geographic expansion: Infosys gets the major share of its business from the North American market as can be seen from Table 23.5.

Table 23.5 Infosys International Revenue Generating Countries

Revenue area	*Revenue in 1999 (in Rs million)*	%	*Revenue in 1998 (in Rs million)*	%
North America	4,173.911	82	2,122.446	81
Europe	475.303	9	231.720	9
Rest of the world	353.327	7	155.210	6
India	124.843	2	94.281	4
Total	5,127.383	100	2,603.657	100

Infosys does not have much of a market in Europe and Japan. This came into focus post 11 September 2000. Infosys would do well to open its markets in so far untapped areas.

2. As a cash-rich firm, Infosys could plan joint ventures in India and overseas to utilise its cash profits and zero debt status.
3. Infosys could extend the services offered. Its present portfolio includes the following services:
   - Apparels
   - Commodity trading
   - Customer management
   - E-business
   - Financial services
   - Insurance
   - Logistics
   - Manufacturing
   - Retailing

Infosys could plan entry in the following fast-paced areas as well:

1. Aviation
2. Healthcare
3. Tourism
4. Transport
5. Security industry
6. Telecom
7. Training in software development
8. Retailing in the country

Task for Students

Do a SWOT analysis of Infosys and plan out the best marketing strategy for it.

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CASE STUDY 6: EXHIBITIONS INDIA PRIVATE LTD— AN INTERNATIONAL PLAYER FROM INDIAN

Exhibitions India (EI) has an outstanding reputation for organising international and national exhibitions and conferences. The following firms come under the EI umbrella:

1. Comnet Exhibitions Private Ltd.
2. Comnet Advertising Private Ltd.
3. Comnet Travels Private Ltd.
4. Comnet Publishing Private Ltd.

The genesis of EI was from the idea of providing a forum for business-to-business interaction. Starting out as an agency of international organisers, it has now become one itself.

Exhibitions organised by EI include:

1. Convergence India, an International exhibition and conference of broadcast, cable and satellite equipment.
2. Commsindia, a comprehensive event for the telecom sector.
3. Bank net, meant for the banking sector.
4. Space 1999, an exhibition on the space technology.
5. Captech 2000, an exhibition for the capacitor industry.
6. Build India/Environment India/Water India.
7. Pride of India, an exhibition held in Vietnam.

The vision, mission, goals and objectives of the firm are as follows:

1. Vision: EIs vision is to be leader in business-to-business interaction with total transparency, honesty and ethical behaviour.
2. Mission: Its mission statement is crisp and to the point—'committed to excellence'.
3. Goals: To increase trade between different areas through business-to-business interactions.
4. Objectives: To maintain high levels of excellence for providing a neutral platform for business, industry and government interactions through exhibitions and seminars.

The company manages its value chain efficiently, which involves the following activities:

1. Government approvals and support of the ministries.
2. Support of industry associations.

3. Corporate world for participating in the events.
4. Bringing out brochures and pamphlets.
5. Setting up of stalls.
6. Opening day inaugural functions.

Marketing at EI: As per the norms of the service industry, they have nothing tangible to offer other than space in the exhibition. The marketing tasks includes communicating the benefits the exhibitor will obtain from taking part in the exhibition.

Among its clients are the public sector, government bodies and the private firms. Private firms take much less time in deciding to participate. The governmental bodies take much longer to decide, necessitating the use of differential time approach by EI.

The company uses telemarketing as one of the initial tools to familiarise clients with the event that is going to take place. They have generated a database of over 5,000 firms as prospective clients for their events. The phone calls give an idea of interest generated in the client's mind regarding the event. Personal meetings to solicit participation follow the calls. These visits are carried forward by mails, phone calls, e-mails with the details of the event and participation entry forms with the rate cards.

The company believes that direct mail is a good beginning of their sales campaign. This is carried out through teaser mails, brochures, pamphlets and reports of previous exhibitions with their results.

Exhibitions India believes that after the event, management of the clients is as important as getting the client to participate in the event. This is done through post-exhibition reports, which gives the order bookings, effective business dialogues and some photographs of the dignitaries from the business world, the government and the media coverage of the event.

Exhibitions India has competition, the major ones being the following:

1. Confederation of Indian Industries (CII).
2. India Trade Promotion Organisation (ITPO).

The company is comparatively small and enjoys the benefits of a flat-structured firm with fast decision-making. It is also competing as a cost-effective firm as it can offer competing rates for stalls in the exhibitions.

The shortcomings of EI are:

1. Services provided are common to those provided by the other competitors with no differentiation.
2. Low manpower affects the performance at times.
3. No venue of their own for exhibitions.
4. Low brand equity, which is surely but slowly improving in the area, which matters to them.

In order to overcome its shortcomings, EI could arrange the following:

1. Buyer and seller meets, both national and international.
2. Organise general purpose fairs for both the public and business.
3. Try to get better rates from the exhibition ground owners.
4. Arrange exhaustive market survey in different areas of current business interest.
5. Communicate with major clients through focused information, which would be of interest to them rather than sending them general brochures.
6. Increase worldwide geographic coverage.

Task for Students

Do a SWOT analysis of the firm and give detailed recommendations for improving its marketing efforts.

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CASE STUDY 7: MARUTI UDYOG LTD—INTERNATIONAL JOINT VENTURE

Maruti Udyog Limited (MUL) is the largest auto manufacturer in India. It has 70 per cent share of the small car segment and 40 per cent of the luxury segment. It was set up as a joint venture of the Government of India and Suzuki Motors of Japan. As of May 2007, Government of India sold its complete shares to Indian financial institutions. Currently, 71.06 per cent of the equity is held by foreign investors including Suzuki Motor Corporation. In September 2007, Maruti Udyog Limited was renamed Maruti Suzuki India Limited. It has a network of nearly 450 vendors, nearly a third of these have ISO 9000 certification. It also has joint ventures with some of its vendors to ensure quality and timely delivery. The firm has about 14 models of cars, vans and jeep. In the small car segment, it competes with Hyundai's Santro, Tata's Indica and Daewoo Motors' Matiz. Matiz is facing problems because of Daewoo's problems worldwide and its sell off.

Maruti's vision and mission statements are:

1. Vision: To be competitive worldwide in products and services; retain leadership in the country and aspire for a good market share internationally.
2. Mission: To sell a variety of cars—modern, high technology and fuel efficient—for Indian and foreign markets.

The firm's values are as follows:

1. Growth-oriented organisation ready to change to meet customer's demand at short notice.
2. Value for money for customers.
3. Stakeholders' involvement and satisfaction.
4. Responsible corporate citizen.

Maruti's motto is 'build trust worldwide'.

Coming to a competitive analysis of Maruti, Maruti had a good run till 1998, when several international players challenged its supremacy. In the small car segment, Matiz of Daewoo Motors, Santro of Hyundai and Indica from the Tatas have posed major problems for Maruti. In the luxury segment, its Esteem faces competition from Honda City, Opel Astra, Ford Escort and Ford Ikon. Its jeep, Gypsy, faces competition from Mahindra's jeeps and from Armada, Sumo and Safari.

The threat of new entrants is real as the segment of middle-class cars is growing rapidly. Volvo, Volkswagen and Toyota are planning to enter the market.

With Maruti's brand image, economies of scale and marketing and service network, new firms have to spend a lot of money and effort and that could be the entry barrier in the case while there is no barrier now from the government side.

Maruti's critical success factors are:

1. Suzuki technology
2. Economic scale of production
3. Strong R&D
4. Timely market feedback as a result of continuous research
5. Large range of models
6. Strong dealer network
7. Large service network around the country with trained technicians
8. Quality programmes—Kaizan
9. Design expertise
10. Brand equity
11. Provide leasing options, hire purchase schemes

Realising the imminence of competition in 1998, Maruti planned to have relationship marketing, with an idea of selling Maruti cars to its existing customer base and upgrading the product purchases. Maruti brought out Zen, Alto and WagonR, for this purpose.

Maruti has competitive advantage in the segments it operates in. To counter the onslaught of competition, MUL even reduced the price of its cars and went for volume business. It has maintained its competitive advantage in the following manner:

1. Superior Suzuki compact car technology.
2. Value for money.
3. Low on maintenance costs.
4. Reliable quality.
5. Largest network of dealers and service centres.
6. Large product range for various needs and pockets.
7. Easy availability and attractive finance schemes.
8. ISO certification, even for a large number of dealers.
9. Technology transfers to important vendors for ensuring quality supplies.

Maruti is a household name not only in India but in a number of countries of the West as well. With a modest beginning in 1997, when they exported 102 cars, now they export to more than 74 countries. The number of cars exported has gone up to 30,000. The countries MUL exports to include Italy, Holland and Chile. Around 70 per cent of its export sales are to Europe.

Maruti looks to future with confidence with the following agenda:

1. Commitment to customer satisfaction/delight.
2. Expansion and modernisation of the facilities.
3. New models as per market demand.
4. Model upgradation.
5. Market research to remain proactive in the market place.
6. Emphasis on overseas markets.
7. Finance for customers.

Task for Students

Do a SWOT analysis of Maruti and give your marketing plan for Maruti, which would enable them to remain market leader without compromising too much on revenue gains.

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CASE STUDY 8: WHIRLPOOL OF INDIA LTD—AN MNC IN INDIA

Whirlpool's vision is to have a presence in every home of the country—with pride, passion and performance. They believe they create the world's best home appliances to make people's life easier and more enjoyable around the world.

1. Pride in the work and in the employees. It is measured by vigorous process of determining the commitment, capabilities and contribution of the employees.
2. Passion for creating unmatched customer loyalty for their brands, which is measured by growth in revenues, market share, market position and brand loyalty.
3. Performance results should excite and reward the global investors and other stakeholders with superior results. The results are measured by calculating the economic value additions and not just the return on investment.

Whirlpool is committed to achieving global leadership by creating value for its three major stakeholders as follows:

1. Customers: The firm has customer focus in all their markets, products and services and it continuously measures customer satisfaction to ensure that they prefer the Whirlpool brand. Through their worldwide excellence system, they achieve improvement in their results and attain breakthroughs in lowest defect levels and low supply cycle time. It enables them to exceed customer expectations and outperform competition.
2. Employees: The firm creates a culture for high performance that encourages the employees to contribute to the tasks fully as individuals and as teams. In a dynamic environment, diversity and pursuit of world-class performance is obtained from the employees.
3. Shareholders: With the aim of global leadership, the firm delivers great shareholder value and in the top 25 per cent of firms in the field.

The worldwide excellence system (WES) is the blueprint for Whirlpool quality management. It constitutes the operating system for achieving its objectives, which are as follows:

1. Leadership and people: At all levels, people must act to reach excellence.
2. Strategic planning, fact-based management and quality of process and products are the major internal processes for achieving excellence.
3. Measurement and results set out for meaningful quantifiable measurements, which can be tracked down for improving quality.

4. The customer satisfaction commitment of the firm includes meeting the customer's expectations, service standards, relationships and satisfactory resolution of complaints.

The WES also provides a feedback loop where the response of customers about the products and services is fed back into the system, driving further process improvement and refining the direction of effort.

Whirlpool Corporation of the USA is a leading manufacturer and marketer of major home appliances. The firm manufactures in 13 countries and markets in 170 countries under the brand names Whirlpool, Kitchen Aid and Roper.

Whirlpool India is a subsidiary of Whirlpool Inc. It acquired a majority stake in Kelvinator of India in 1996. It started with the following four products under the Whirlpool brand:

1. Refrigerators
2. Washing machines
3. Air conditioners
4. Microwave ovens

Keeping to the core business of white goods, they have discontinued unrelated lines. As a result, it has divested from its compressors and automotive division.

Coming to the management strategy of the firm, it follows an expansionist strategy to avail the opportunities in the Indian market. The strategy has the following thrust areas:

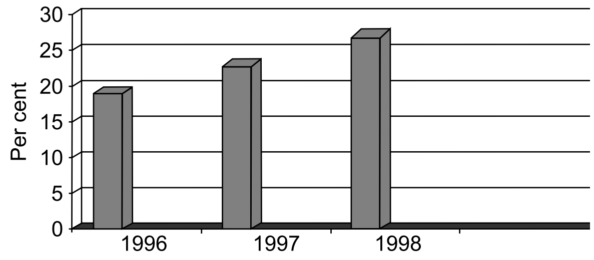
1. To register growth in the market through brand leadership, to make Whirlpool a dominant brand.
2. To make external focus of satisfying customer needs.
3. To achieve business growth through high volumes, high quality and low costs.
4. To focus on core competencies and to have the best capabilities in the industry.
5. To have high profit and most efficient cost structure in the industry.

The consumer durables industry is characterised by the following:

1. Formidable entry barriers in terms of brand equity, distribution and service networks.
2. Manufacture of most durables is neither capital nor technology intensive, the need for constant product innovation makes R&D a key factor.
3. Rationalisation of duties and opening up of the economy has attracted a host of global players.
4. Increased competitive pressures and over-zealous capacity creation have resulted in lower margins, which are expected to aggravate.
5. The market for most consumer durables are in the nascent stage and penetration levels are low.
6. The sector is price sensitive and each durable is a life time purchase.
7. Refrigerators and washing machines sales are seasonal. Peak period for refrigerator sales are the summer months and for washing machines during the monsoon season.

The consumer durable market in India is estimated at Rs 100 billion. The rural market, which has 50 per cent of the target group, has lower levels of penetration. Favourable personal tax, politics and increase in credit financing are expected to increase spending capability on durables. Realising the potential, an annual growth rate of 24 per cent is predicted over the next three years and helped by the liberal foreign investment politics, most MNCs dealing in consumer durables have established base in India through tie-ups (see Figure 23.3).

Figure 23.3 Growth of Consumer Durables (1996–98)



The refrigerator market has two segments, the direct cool type and the frost-free type. Its penetration levels are as follows:

1. Urban: 32 per cent
2. Rural: 10 per cent

The installed capacity in the country is 3.2 million units per annum while the demand is 2.8 million units only.

Whirlpool sells both the direct cool and the frost-free refrigerators in different sizes and have introduced the first CFC-free, no frost refrigerator. Its campaign, 'ice, ice baby' has helped the firm in achieving great success.

The market share in percentage of refrigerators in India is as shown in Table 23.6.

Table 23.6 Market Share of Refrigerator Brands

Company	*Market share (in percentage)*				
Whirlpool	21	Electrolux	Videocon	BPL	Others
Godrej GE	31	Electrolux	Videocon	BPL	Others
Electrolux	24				
Videocon	10				
BPL	5				
Others	9				

The installed capacity of refrigerators in India is given in Table 23.7.

Table 23.7 Manufacturing Capacity of Refrigerators in India

Company	*Installed capacity (in million units)*
Whirlpool	1.4
Godrey GE	1.3
BPL	0.3
Voltas	0.55
Electrolux	0.3
LG	0.4
Samsung	0.2
Daewoo	0.2
Others	0.5

In washing machines, Whirlpool competes with the following firms, as shown in Table 23.8.

Table 23.8 Market Share of Washing Machine Brands in India

Firms	*Market share (in %)*
Whirlpool	18
Videocon	35
Godrej GE	12
BPL	22
Others	13

Whirlpool's marketing strategy can be summarised as follows:

1. To place Whirlpool washing machine with every customer in every price segment.
2. Marketing only top-loading machines.
3. Started with top-of-the-line front-loading machines.
4. Whirlpool's creative campaign 'one-two, one-two' has been a big success.

Whirlpool is planning to bring a new range of refrigerators in the near future. This would be known as Opera and would consist of the following:

1. 180 litres, four models—Futura, Home maker, Master piece, Break the barrier.
2. 210 litres, two models—Futura and Home maker.

These brands would be common to India, Brazil and Mexico, which is part of the policy to position the global products in India.

Whirlpool believes that there are three types of competitors in India as discussed next:

1. Basic trading instincts of buying and selling low-value products. This is going to continue for a while. Some large competitors with high brand awareness in the country, which is not built on a strong platform of differentiation.
2. There are the South-east Asian types, not just the Koreans. A number of technology-driven firms pack their gizmos with features and some are good with futuristic plans.
3. The best products and technology do not build big business or brands, which depends on consumer perception. There is competition from the developed countries of the West. They have a different approach involving clearly differentiated products for the firm and its brand.

Who is going to succeed will depend on the policies and plans the firms have for India. Whirlpool wants to place its strategy on the third category.

Whirlpool's growth will depend on the following aspects:

1. The industry's phase is of consolidation and the number of players will reduce in a few years, which would have a positive impact on sales.
2. Possible decline in commodity prices in the international market for steel and copper could lead top procurement savings for lower manufacturing costs.
3. Phasing out of CFC products is to the benefit of Whirlpool as it has launched an array of CFC-free products conforming to the Montreal Protocol.

4. A 4 per cent levy on import duty and rupee depreciation is likely to affect the firm's cost structure, as a large proportion of raw material is imported. The firm is on an indigenisation drive for sourcing components to overcome dependence on imports.
5. Whirlpool keeps more than one supplier for its components.
6. Most global majors are competing in India, due to its vast potential market. Indian firms also compete with Whirlpool.

Task for Students

Organise a SWOT analysis of Whirlpool and give your own marketing plan for the firm.

* * * * * *

CASE STUDY 9: PRICE WATERHOUSE—INTERNATIONAL CONSULTANCY COMPANY

Traditionally an accountancy firm, it was started by Samuel Price and Edwin Waterhouse in 1849 in London UK. In 1930, the partners fanned out across the world, establishing semi-autonomous practice for accountancy investigations, liquidation and other financial services. It was only from 1980 that Price Waterhouse (PW) started management consultancy in a big way as several firms started accepting consultancy as a useful profession. It has added technical research to their portfolio, an advance technology centre in artificial intelligence in the US with a US$ 410 million development centre in London for information technology (IT) skills.

The USP of PW comes from combining the roles of a consultant and an implementer.

Its vision reads as follows: The firm is committed to turning strategic insight into tactical action (strategic implementation), for our clients. In doing so we provide them with high quality, leading edge, industry-focused services and solutions, wherever they do business.

Their mission statement reads as follows: To be the global consultants to top-layer firms by solving their complex business problems.

The international growth phase of PW began after World War II, when partnerships were set up in different parts of the world. These were mainly offices to serve audit clients in the first instance. Tax consultancy services were added in the large offices. Today, PW has 434 offices in 119 countries.

The highly-regarded firm, Emerson Research, rates PW as simply one of the best in its 1998 client satisfaction survey of high-technology firms. Price Waterhouse ranked first, in 11 of 13 client satisfaction categories among 293 audit clients of the six big firms. Price Waterhouse earned five-star status in four categories and it bagged more number one rankings than any of the other six big consultancy firms (Table 23.9).

Clients have singled out PW among the big six firms in serving high-technology firms as can be seen from comments:

They have a high degree of responsiveness and professionalism.

Overall they are exceptional.

I think they do mergers and acquisitions very well. It is a specialty of PW.

Table 23.9 Ranking of Price Waterhouse

Category	*Price Waterhouse's ranking*
Overall client satisfaction	1*
Responsiveness of the partners	1* five star
Understanding clients needs/expectations	1
Audit and accounting services	1 five star
Information technology services	1*
Corporate finance	1*five star
Tax services	1*
Contribution to success of the client's business	1*
Staff responsiveness	1*five star
Proactive contribution	1* five star
Consultancy services	1

Auditing is a competitive area and therefore the firm has diversified its management consultancy to cover such industries as entertainment, media and high technology. To keep abreast of industry trends, PW has formed a new consulting group for electronics and online financial services.

Price Waterhouse is restructuring itself along product lines, as opposed to territorial divisions to serve the full range of its multinational clients. The purpose of the renewal efforts is helping firms in implementing strategies to improve business performance and shareholder values. Price Waterhouse helps bring about organisational and strategic changes. Its competitive advantage lies in its meeting audit and tax requirements with greater speed, with improved software packages for its client's benefit.

Price Waterhouse—The Indian Profile

Price Waterhouse was established in India in 1880 as a part of the worldwide network of Price Waterhouse. It has access to worldwide resources in terms of experience and expertise. It has the largest professional resource based in India enabling it to have a greater subject and sector specialisation with 41 partners, around 1,500 professional staff and is supported by a panel of external technical and professional experts.

The various disciplines PW deals with include:

1. Audit and business advisory services (ABS)
2. Tax
3. Management consultancy services (MCS)
4. Corporate finance recovery and disputes (CFRD)

Its clientele includes large and prestigious organisations in the following areas:

1. MNCs
2. The Indian private sector
3. The public sector and the government

4. Bilateral donor agencies/foreign embassies
5. Multilateral funding/development agencies

Price Waterhouse is registered with the World Bank, Asian Development Bank (ADB), UNDP, UNESCO, IDBI, and Federation of Indian Exporters Organisation (FIEO). Besides, it has regular working and consultative relationship with various Indian ministries.

Price Waterhouse has, over the years, acquired specialisation in the following industrial sectors:

1. Agro-based industry, including food processing
2. Banking, finance and insurance services
3. Engineering and electronics
4. Finance and insurance
5. Hotel and leisure
6. Informatics including software
7. International funding/development agencies
8. Mining
9. Manufacturing and allied industries
10. Retail trade, consumer goods
11. Transportation
12. Telecom
13. Petroleum utilities including power and water

Price Waterhouse has other divisions operating in India as follows:

1. Price Waterhouse Associates
2. Price Waterhouse & Co
3. Choksey & Co
4. IPAN

Price Waterhouse India is a separate profit centre for the parent firm; it is their strategic business unit (SBU). Partners of the Indian operations have stock options in the parent firm. The parent firm does regular internal audit in order to ensure that they conform to their strict guidelines.

In order to scan the competitive environment, Porters Five-force Model is used as follows:

1. Bargaining power of the customers: It is moderate as the customers have the choice to select from various consultants, but it is not high as most of them provide certain specific and specialised services.
2. Bargaining power of the suppliers: They include the business schools and the Institute of Chartered Accountants of India. Their bargaining power is moderate as consultancy is a refined form of business dealings—an aspect highly appealing to intelligent experts. The managerial talent of business schools prefers to join the consultants.
3. Threat of new entrants: The threat of new firms entering the area is high as it is a growing and profitable business.
4. Threat of substitute products: This would come from internal experts of the clients. The threat from them is low as the internal experts may not have the vast resources, which are available to the consultants. Firms generally prefer to go to consultants.

Competition among rival firms is high. The major players include the following:

1. Anderson Worldwide
2. Vooz Allen
3. PA Consulting Group
4. PE Consultants
5. Mackenzie
6. Boston Consulting Group
7. KPMG

The critical success factors for a consultancy firm like PW are as follows:

1. Consultants form the backbone of the firm: The two basic characteristics of consultants are high intelligence and expertise in different areas as needed. John Foden, CEO of PA Consulting Group, identifies three characteristics of an ideal consultant, which are (*a*) ability to listen, (*b*) capacity for analysing the situation and (*c*) capacity to come up with creative knowledge-based solutions.
2. HR planning: They employ meticulous care in recruiting management trainees from the best schools.
3. Career development opportunities: The promotions are performance related.
4. Pay package.
5. Continuous training and upgrading of skills.
6. Establishment of relationship with clients.
7. Uniqueness of ideas.
8. Development of new ideas.
9. Experience.
10. Latest management ideas.
11. Efficient management information systems.

The dictum is that a firm is as good as its clients.

Task for Students

Do a SWOT analysis of the firm and recommend strategies for marketing to combat the competitive forces.

* * * * * *

CASE STUDY 10: JAPAN—COUNTRY-SPECIFIC STRATEGIES

Japan in the last 60 years may not have forgotten the defeat in World War II, but due to the indomitable spirit of its populace, it has come out a winner in the business world, with extremely high growth rate as compared to even its victors. Pre-war Japanese products sold in India were not considered to be of good quality. 'Oh! It is a Japanese product' were the derisive words used for imports from Japan. How this dramatic change took place makes an interesting case study. Japan has no natural resources, is plagued with recurrent earthquakes, has very little land and is made up of several islands. Its culture is age old and people are bound by traditions. The transformation from a laid-back, tradition-bound country into a modern, fast-moving, dynamic business potentate has left most theorists and philosophers agape with wonder.

After World War II, Japan became an ally of the powerful USA, who incidentally took over the country's defence, a fact that left the Japanese ready to concentrate on nation-rebuilding activities. To create wealth for the country, business and industry were the most important planks and they went into these areas with full vigour. This time around the Japanese wanted to drop the tag of poor-quality suppliers. For this purpose, they invited business gurus from the US who toured the country giving their inputs about quality-improving techniques. Quick on the uptake, the Japanese improved on the teachings of the gurus and came out with the Quality Circle Programme, which has revolutionised business the world over. Over the last 60 years, Japanese innovations in the field of business and industry have underscored even the success of the giant, the US. Some of their strategic decisions and innovations are:

1. Understanding the value of money blocked in inward inventories, they introduced to the world the 'just in time' (JIT) plan, which helped save costs to the tune of 10 per cent in having virtually no inventories. JIT works well if there is close partnership like cooperation between the firm and the supplier. In turn, it becomes useful to see that the supplier is also having JIT deliveries from his suppliers. Such a chain can account for large sums of money being released for the purposes of development and growth.
2. Zero defect production came about with the help of total quality management (TQM) and the Quality Circle Programme. Firms could eliminate the final product testing and could disband the entire set of engineers involved in the testing process. This led to higher production, lower rejections and savings of raw material and manpower and reworking costs. This made the Japanese competitive in the world.
3. Suppliers ceased to be necessary evils who never supplied on time, gave defective products and always wanted higher prices for their products. Joining hands with suppliers and making them almost their partners, helping them in their JIT and quality programmes gave the firms and the supplier's confidence in each other. Firms have been able to reduce costs by eliminating suppliers' assessment for each order placed with them. It has also helped in reducing the time needed to bring new products in the market as new materials are available from the partnership sources without delay.
4. Japanese innovation of small teams, the quality circles, which manage continuous incremental improvements in the firms' processes to create low-cost and high-profit systems.
5. Japanese firms bring about technological cohesion by using different technology together as tech-fusion. This has brought about a paradigm shift in the area of product development. Hybrid technologies like opto-electronics mechatronics are an example of tech-fusion.
6. Japanese firms believe in cross-functional teams and flexible structures in problem-solving areas. The product development process time has been greatly reduced in view of the market demands and shortening product life cycles.

Japanese firms believe that if the employees are fully motivated, have job satisfaction and teamwork, they can create better organisational processes and work with total dedication and this is achieved through well-structured programmes like the quality circles. Quality circles are engaged in the processes as follows:

1. Problem-finding action.
2. Problem-solving function.

3. Solution action plans.
4. Feedback loops.
5. Integrated responsibility.
6. Study of the environment to avoid pitfalls.

Problem finding goes down the firm's ladder as even the lowly worker is expected to locate problems, so that they can be nipped in the bud and the need for finding solutions does not arise. Also, if the workers find the problems and solutions to the problems, it would be easy during implementation.

Problem solving leads to finding solutions of the market needs, new products and services; solutions to quality problems, process problems and product differentiation plans of existing products to bring sustainable competitive advantage.

Using new ideas in the existing processes, the firm arrives at solution implementation. Most Indian firms do not want to have workers trying to find out the solutions for their own workstation problems, as they consider them unworthy of taking important decisions and they believe that only top managers are capable of finding the solutions to the problems. This leads to solutions being thrust upon the juniors, which they resent and hence do not feel committed to implementing them.

Employees suggestion plan: While these plans are in place in several countries, they have become the moving spirit for job satisfaction. All suggestions are given due credit and as the suggestions are made after thorough investigations and experimentation, they are implemented. Employees feel highly motivated to see their ideas implemented. Quality circles help generate the suggestions and on a regular basis, the Japanese worker keeps sending suggestions with a yearly average of a minimum 50 to a maximum 1,000 suggestions, where the average for the American worker comes to about three.

Problems in Japan are considered as beneficial because they provide the firm with impetus to overcome them and improve the firm's efficiency even further.

Japanese business culture believes that for furthering the cause of the firm they need people with good education. The firms believe in collective decision-making with upward flow of decisions. The main points of their business culture are:

1. Authority with seniority.
2. Respect for age.
3. Life-long employment.
4. Loyalty to the firm.
5. Participation in the quality circles.
6. Group information and decisions in quality circles.
7. Emphasis on productivity.
8. Debt financing is facilitated by the banks.
9. Slow decision-making process but fast implementation.

Tasks for Students

Compare and contrast the Japanese and Indian cultural stream. How can Indian businesses learn from their Japanese counterparts?

* * * * * *

CASE STUDY 11: INTERNATIONAL MARKETING BY FORD CARS IN INDIA

Ford singled out Indian car market because of its cost competitiveness. The product should be designed to cover the costs and compete in the price-sensitive market. Cars should be tough as Indian roads are bad and the terrain is rough. The temperatures can be quite high necessitating air conditioning, at least in medium-sized cars. Indian buyers are like buyers anywhere in the world; they know what they want. Urban India is characterised by the following:

1. English literacy
2. Internet literacy
3. Well connected with the world through the Internet

Indian customers know what is available elsewhere in the world and they want it but at prices they can afford to pay. They are looking for *value for money* products. Customers are fully conscious of quality and latest technology in the world market. They do not go for technological advancements unless they know their benefits to them. As far as the quality of cars is concerned, they do not know about it beforehand, but once they use a quality product they stick with it and they become the most demanding customers in terms of quality in the world.

Indians have a great sense of value. When Ford brought out their Ikon car, with a superior feeling that matched the demands of Indian customers, they could justify its purchase. Ford was launched in 1996, in the mid-car segment, with quality and customer service as its USPs. They have found that the Indian customer is sophisticated, well informed and has the upper hand. With several players, including Maruti's Esteem, Opel Astra, Honda City, Mitsubishi Lancer and Fiat's Palio in the same category, cars crowd the market and in its true sense it is a buyer's market.

Market Trends

Small- and mid-sized cars are going to be sold in large numbers in India for quite some time to come. In the first instance, buyers go for small cars as they are easy to manoeuvre in crowded roads and are easy to park. Next, when they can afford it, they go for mid-sized cars. That is where Ford's dealer network scores over others, with its strong customer bonding. Even during recession, Ford could sell its Escort car fairly well, in contrast to the competition. How they succeeded in launching Ford Ikon despite the recession is discussed next:

The Ford Ikon Story Directly from Ford

INTRODUCTION

In its category, the Ford Ikon has captured the mindsets of car lovers and critiques alike. This document is a summary of the series of activities which were carried out to achieve the main communication objective, 'a launch that never ends'. Spread over a period of nine months, the communication was present in the entire spectrum of the media—TV, print, to ground events and the internet, supported by timely and full of impact press releases. All this to ensure that the potential car buyer will drive straight in to our Car dealership!

MARKET SITUATION

The future of Indian car industry is brighter than ever before, with growth rate of 19.2 per cent. Cars grew from 1998 to 1999 by 27 per cent the customers have a good choice both in the small cars segment and also in Ikon segment. Hyundai Accent, Opal Corsa and other cars are on the anvil.

FORD IKON CAR—FORD'S PHILOSOPHY

We aim to be the leading consumer company in the field of automobiles, says Fords President Mr Jac Nasser. He car has the NEW EDGE design with excellent power and acceleration and luxurious interiors. Ford Ikon is the JOSH Machine, a car with the spirit and enthusiasm to take you anywhere you want to go, in style.

CUSTOMER PROFILE

Our customer is a **full-of-life** person. He wants to lead a richer life than previous day. It is this desire to continuously better his position and quality of life that drives him.

POSITIONING

In India Ford is perceived as a warm, approachable, large-hearted company. And Ford Ikon has been positioned for such large hearted persons, the Zinda Dil, who are full of energy exuberance and adventurous spirit. Therefore, the company is staffed with people aggressive go-getters, aided by dealers who believe in giving their best. 'PLAY HARD AND WORK HARD' is their Motto.

COMPETITION

Maruti Esteem—market leader, under threat from new, better quality cars. Largest dealer and service network.
Fiat Siena—world class market accepted car, needs to improve production and dealer network.
Hyundai Accent—strongest **competitor** to Ikon.
Honda City—top end of the segment car, interiors need to be improved.
Opel Corsa—GM is positioning the car in the low-end of mid-size segment.

Ford Ikon expects furious growth and competition in its segment in coming years and is fully prepared for action and is confident of storming in to the battlefield and emerging victorious.

COMMUNICATION OBJECTIVES

- To execute the most *impactful* car launch in India.
- To relaunch Ford brand in India through Ford Ikon.
- To communicate the positioning of Zinda Dil.
- Add dynamism to Ford's inherent quality of safety, security and trustworthiness.
- To sum up we say THE LAUNCH NEVER ENDS!

Series of activities planned are as follows:

1. On ground activities like, Early Consumer Reveal, Road Shows, the Name reveal, the faces behind the Ikon campaign.
2. Continuous positive press releases in main publications.
3. The launch plan included all forms of media, like press, TV, outdoor, cinema, direct marketing, joint promotion and the internet.

With Powerful engine, both Petrol and Diesel, the car is good for city start-stops and also for long drives. Ford's 'New Edge' Styling and high gloss paint make heads turn. Its luxurious interiors, seating comfort are best in the class. With large luggage boot and QualityCare philosophy behind Ford's service makes owning a Ford Ikon a totally hassle free experience.

The Ford Ikon is a 'Josh Machine' every way you look at it.

PLANT INAUGURATION

On 19 March 1999, Rs 1,700 crore plant was inaugurated in Chennai, in the august presence of the Chief Minister and the governor of the state and top officials of Ford.

OBJECTIVES

Dedication of this facility to the people of India as well as reiterating Ford's commitment to contributing to India's future.

MEDIA USED

Main line—Press, All India.

NAME REVEAL

The name of the Ford's new car—the Ikon was revealed to the press at a conference in Mumbai. Hosted by Ford's senior people, it was really a showcase of the Zinda Dil attitude of Ford India Ltd. The highlight of the evening was the revelation of the name to the Press through a taped recording.

Time period: May–June 1999.

PRESS ADS

Objective—The objective was to reveal the name in an interesting manner and also to create a sense of anticipation with these ads. The three ad series in dailies and magazines (all run in a single day) revealed some of the distinct parts of the car as a tear away in the visual. The ads highlighted the fact that each feature of the car makes it a distinctive car.

Cinema—Cinema as a medium was used in Delhi to reveal the name to the public. The commercials were run in the theatres in Anupam PVR for one month.

PARTIAL REVEAL CAMPAIGN

Objectives:

- To do a partial reveal of the car to arouse interest in the Ford Ikon prior to the Autocar reveal.
- The objective was also to portray the Zinda Dil spirit that is going in to making of the Ford Ikon.
- Focus on the mood of optimism and the sheer positive feeling that is prevalent amongst all the people who are involved in making the car—the Ford Employees, the Dealers and the Suppliers. The car partially hidden by photographs of happy people in a work scenario contributed to expressing this feeling of optimism.

Result:

The campaign succeeded in creating immense curiosity among leading auto-journalists, who in their magazines tried to create the final shape of **the** car from these ads.

Time frame: July–August 1999.
Media: Business daily, magazines.

EARLY CONSUMER REVEAL

Objectives:

1. To build up excitement around the car, when the first cars are available at dealerships for display, and generate positive hype around the car.
2. To serve as a filter, in a time of no media activity.
3. Get a prospects database.

Time frame: September–October 1999.
Advertising used:

- **Direct Mail**—inviting the dealers and customers.
- **Press Ads**—teaser ads in black and white.
- **Press Ads**—black and white-final.
- **Dealership Decoration Material**—Streamers.
- **Dealership Decoration Material**—Banners.
- **Training Material**—Six Position Selling Guide.
- **Training Material**—Dealership Product Guide.
- **Product Flyer**.
- **Give-away Poster**.
- **Technical Specification Stands**: at Dealerships.

THE NEW FORD INDIA WEBSITE

Objective:

On August 1999, Ford India Limited launched an informative and interactive website accessible at the address—www.india.ford.com with the objectives of

- Sales lead generation.
- Increase interactivity.
- Develop relationships.
- Extend loyalty programme.
- Build the brand.

The new website, designed on the latest Flash Animation Technology, is a visual treat for net surfers. The site provides 9 in depth and up-to-date information on Ford and its products. At the same time it allows the surfer to provide feedback. This site has been revamped to make it animated, colourful and easy to use. This new website will also provide links to Ford's international brand. It allows access to global Ford Motor Company site (www.ford.com) and a chance to visit Ford's international racing site. Constant updating with latest information on Ford is expected to be a highlight of this site.

Timing: August 1999 onwards.

FORD WORLD ISSUE 6

Objective:

To provide the Ford customers and hot prospects a special preview of the Ford Ikon before the display to the public of the car.

Timing: August 1999.

QUALITY CARE

Objective:

To launch the QualityCare programme—an umbrella under which the customer is assured of value during every encounter with the company.

Timeline: August 1999.

LAUNCH COMMUNICATION

Objectives:

- To build to a crescendo the communication across all media to coincide with the order taking for the car and its subsequent launch.
- To communicate the various aspects of the Ford Ikon that made it the ultimate 'Josh machine'.

Timeline: October–December 1999.
Media used:

- Television
- Mainline Press

- Direct Mail
- Outdoor
- Point of sale material at the Dealerships

FORD INVITATION GOLF

Objectives:

- To associate JOSH with this high profile corporate sport and to increase visibility amongst key Corporates and Professionals in important markets.
- Capitalise on the opportunity to showcase the Ford Ikon prior to its launch.
- To develop a relationship between Ford and the Corporate customer.

The result:

The target audience got a sneak preview of the Josh Machine that greatly influenced the word of mouth publicity

Time frame: October–November 1999.

CONTINUED MEDIA PRESENCE

These started with Dealer Recruitment advertisement

- The Josh machine seeks like minded dealer in New Delhi.
- Objective was to keep the josh machine top of the mind with the consumers and create awareness of the complete Ford Ikon range, an Ikon for everyone.
- To take leadership stance vis-à-vis competition in the consumer's mind.
- Time frame: March–April 2000.
- Media used press, brochure.
- Paint chip stand and flyer.
- New product brochure.
- Sales training module.
- Product video.
- Plant video.
- Mahindra Holiday Resorts joint Promotion.

DIRECT MARKETING—FORD WORLD

Objective: To communicate to existing Ford customers and prospects about the Auto Show and the other events.
Time frame: February 2000.
Accessories: Flyer and selling guide.
QualityCare: Press Ads and Sticker Pads.

MAKING OF AN AUTOMOBILE BRAND

Serendipity, fate, chance, karma all work only when your own efforts are discernibly concentrated and strong. Defining Serendipity became the Mantra at both the Agency and the

FORD Company—let us try hardest and achieve, leaving nothing to chance and we are sure, chance, fate will be on our side.

Market Scenario was as given below:

- No choice in buying cars to More Choices—does it add to confusion among the customers?
- Acceptability criteria changed as Quality became the basis of selection of cars.
- Honda and Opel enjoyed high brand equity.

Key Discoveries for Ford Brand:

- Ford was synonymous of Escort—Ford Escort cars were the only Ford Cars popular in India.
- For several decades Ford was accepted as a Trustworthy and Reliable Car.
- Ford builds cars that are engineered for India, safe and sturdy.
- Ford cars are dependable.
- Fore cars were not known to be exciting cars.
- Ford was known as an American company.

A Visceral understanding of the customer was undertaken to get to the key customer insights and it was considered that the psychographics segment for Ford Ikon would be **Full of Life**. After exhaustive survey of 1,200 car owners two broad classifications emerged:

- The enthusiasts
- Non-enthusiasts

Six clusters in Mumbai and Delhi emerged as follows:

Driving Enthusiasts	Driving Non-Enthusiasts
Starting out small—20 per cent	Contented conformists—17 per cent
Affluent People—13 per cent	The Upper Crust—4 per cent
Full of Life—20 per cent	Life without Spice—26 per cent

The Key Discoveries on the customer's were as follows:

- The customer belongs to the FULL OF LIFE segment.
- He is young, in early thirties, and has a successful carrier.
- He is well travelled, aware of the latest trends and technologies worldwide. He will not be taken for a ride.
- He wants to show that he has arrived and his car plays a key role in that.
- He is a driving enthusiast and his car is an important possession for him.
- Brand and price are important considerations for him.
- The customer may belong to erstwhile refugee family with 'spirit of flamboyance.'
- The customer is a positive thinker, 'I can do it, must do it and will do it.'
- The customer also believes in 'If you have got it flaunt it.'

The product strategy, which followed from the customer profile, is as given below:

- Preferred car was with three box structure, unlike Maruti 800, the two box car.
- The car should be built for India.
- The car should have international looks to give it a new edge.
- Ford should lead from the high end, as per what Ford learnt from their Escort Model.
- The car should be **freshened up** constantly to keep up the excitement.

The following positioning of different cars were found:

- Esteem–Driving pleasure
- Honda City–Power and Technology
- Siena–Safety
- Corsa–Technology

In view of the above the following positioning strategy was formulated:

- There was the temptation of calling the car as 'Engineered for India'
- Of Iconising the Ford Ikon
- The temptation of calling it a 'Value for money car'
- And arriving at a Brand Vision

With respect to brand we sought the answer to the following question—

What does the Brand offer to the customer—

The large hearted, generous spirited, hard working, can do must do and will do company. The search of Brand Vision established that customer desires, smart-working, can-do, must-do, well-do attitude

Hence the Brand Vision emerged as given below—

Zinda Dil—Exuberance

- Living life king size
- Gregarious
- Long hearted

Ford Ikon's personality can be described in the following manner:

BRAND VISION

Why do people find me appealing?

I represent everything that is contemporary in Ford—From the 'New Edge' styling to the powerful engines. I am being launched for the first time in the world in India.

What is my personality?

Progressive, Contemporary, full of life, work hard play hard.

Who do I appeal to?

Young, successful males, who are full of life. Firm believers in 'Work Hard, Play Hard Ethic'. Big on life, Driving enthusiasts, love socialising.

What relationship do I have with them?

I am their friend. To increase their excitement. I never say no, because they never say no either.

Why am I different?

I am more than just sheet metal and four wheels. I am contemporary and exciting. I represent an attitude, a way of life.

How do I express myself?

I am colourful, confident and bold. Everything I do is youthful, energetic. I appeal to the heart more than the head.

BRAND IDEA

Josh—

- The Brand has youthful energy.
- It has passion.
- It is full of enthusiasm.
- Its reactions are spontaneous and it provides an emotional high to its owners/users.

THE COMMUNICATION PLAN

Following were the discoveries in the research done prior to the campaign—

So far the communication had been conservative, feature led and product focused. The communication idiom has been changing in the marketplace. The car had become a personality statement for the owners. A tone change was required in Ford communication—from Test cricket to One day international, from laid-back to vibrant and dynamic communication.

The communication imperatives can be described as given below—

Planning communication in an integrated manner across the varied communication channels, the period needed for gestation being nine months. The other imperative was THAT THE LAUNCH NEVER ENDS, to sustain the excitement in the post launch period.

CREATING A BLOCKBUSTER CAMPAIGN

The creative task was to imagine how the customers really visualise communication. For this purpose, it was decided to treat Press as Billboards—bring JOSH through Ikon's looks. The attitude of JOSH had to be planted in the TV Ads to cut through the clutter of advertisements on TV.

The launch events were used to build JOSH theme and it was spread through road shows in 44 cities across the country.

TAKING JOSH FORWARD

JOSH being an emotion and sentiment, it had to be reinforced through Peer group endorsement of the decision of purchasing the Ikon. Reviews from experts were used prominently in the AD campaign. The drive to maintain JOSH through attitude and emotion was relentlessly pursued. The Campaign was based on Thrill, Intoxication and Exhilaration.

THE EXCITEMENT GROWS

The need to sustain the JOSH was met with Strategic Launches of Car Variants. The following versions were launched:

- 1.3 CLXi—move up to the JOSH zone.
- Rally Sport—for the Racer in you.
- Exi—a sign of success.

Even with these variants, the communication of JOSH was not diluted as the JOSH tongue-in-cheek attitude was carried through even in tactical advertising as can be seen from the following:

- An event lead Auto Show
- Airline promotion—targeting the high fliers
- The 1.3 car Road Show—into new markets
- Resort Promotion—a new contact opportunity with the customers
- JOSH Karting—was meant to spread JOSH among the corporate.

REINFORCING JOSH THROUGH OWNERSHIP

Once a customer has purchased the JOSH Machine he has to be pampered by the company. It is done through continuous contact programme with interaction with Ford World and Theatre Premiers. Furthermore, a periodic feedback is obtained from the owners about their ownership experience.

Let us analyse where does JOSH fit. Here come the JOSH FITS—

- **Objective:** to associate JOSH clearly with excitement, fun and 'IN' things
- **Strategy:** to create branded properties on TV, with events at happening places like Djinns
- **The results:**
  (*i*) 'Josh action cuts' on AXN.
  (*ii*) 'Extreme JOSH' on Discovery Channel.
  (*iii*) 'Top Gaana' on MTV.

JOSH IN THE NEW MEDIA

Integrated communication was achieved by the use of new media available today as follows:

- www.india.ford.com, which is the website of the brand
- Mirror marketing activity
- Innovate, Innovate, Innovate
- Ikonnect 2home.com
- Autoshow on the web
- Launch of the Sxi
- Customer conversations
- Car care tips, driving tips

THE RESULTS

- Largest selling car in its segment in the first month of the launch itself.
- Cumulative sale from the launch till date highest in the segment.
- Josh the most recalled brand property amongst **any** automobile advertising in independent research.

Sales percentage of different brands of the segment are given below for the years 1999 and 2000:

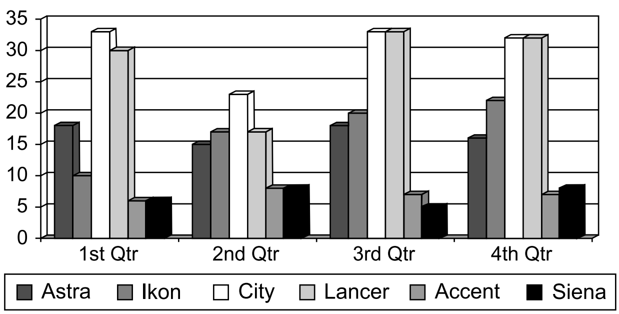
Maruti Esteem	37	22
Opel Astra	6	4
Honda City	20	13
Ford Ikon	4	21
Cielo	7	3
Mitsubishi Lancer	16	12
Fiat Siena	7	3
Hyundai Accent		15

FORD IKON REPORT CARD

Ford Ikon holds its own amongst other more established players. Purchase consideration importance given to various factors while buying a car—

Cars proud to own	100
Cars full of life and vitality	91
Good value for money	90
Stylish	90
Family cars	85
Safest cars	81
Better drive than others	80
Solid built	78
Comfortable	75
Quality cars	74
Low running cost	32
Especially designed for India	74
Confidence car	75
Brand	99

The statement given below gives the value judgement of different cars in the time frame January to June 2000.



Largest selling car in its segment in the first month of the launch.

Cars you would be proud to own.

Task for Students

Analyse the strategy adopted by Ford and give your recommendations for keeping pace with the Indian competitive environment.

* * * * * *

CASE STUDY 12: THE CHRYSLER CORPORATION

Through the 1970s, Lee Iacocca was the trusted friend of the top man of the Ford Motor Company, Henry Ford, and CEO of Ford. Lee and his wife, and Ford and his wife were often seen partying together as the spouses too had a great rapport. At that time, Lee got an offer from Chrysler to join them as their CEO, but due to his friendship with the Fords, he rejected the offer. In 1977–78, however, the relationship with Ford started souring and Lee was sacked by Ford on ego issues. By this time, Chrysler was in real bad shape and they welcomed Lee with great expectations.

Chrysler was the third largest automobile firm in the world, with a reputation of building tough sturdy cars. Unfortunately, with one bad model, the firm started slipping down. The Chrysler scenario in 1977 is given next:

1. One million cars called back to the factory for retrofitting to counter serious safety hazards.
2. New fuel efficiency and emission norms of the government of the USA, required the firm to invest US$ 7.5 billion for getting new tools to do the job.
3. Cash flow was threatened.
4. Bankruptcy was round the corner due to the firm's inability to service the huge debts.

The financial situation of the firm in 1978 is given next:

1. First quarter loss was US$ 120 million.
2. Second quarter earnings were US$ 30 million.
3. Third quarter loss was US$ 160 million.

Most of the directors of Chrysler were recommending that the firm should declare bankruptcy. Some had faith in Lee and on the day the third quarter results were declared, the directors also confirmed the appointment of Lee Iacocca as the new CEO of Chrysler.

The Automobile Market of the 1970s and 1980s

Henry Ford had stuck on to the T-model Ford car. He believed that 'if the product is selling well as it had done from its inception why change it?' He also did not budge on the colour issue and wanted all his cars to be black, despite the pleadings of several of his lieutenants.

General Motors (GM), albeit a late start, had come to the forefront of the car market with their new cars in different colours, shapes and sizes. GM was, in fact, the number one firm in the world for all products in terms of assets.

Chrysler faced the following problems:

1. Poor product quality.
2. Drop in sales.
3. Suppliers had become arrogant as they were not being paid on time.
4. Customers felt they could take full advantage of the situation.
5. Chrysler UK was doing better but being so far off, and with only 15 per cent of Chrysler business, could not be depended on to rescue it from disaster.

After joining, Lee analysed the situation and planned his strategy for bringing Chrysler around in five years. He made some top-level changes, threw out the deadwood, the incompetent and non-believers of the future success of Chrysler. He brought some of his top associates from Ford, who had enough trust in him to leave Ford to join a declared sick firm. Lee's analysis of the scenario was:

1. He needed money for R&D to bring out better cars commensurate with Chrysler's earlier image of building good, sturdy cars.
2. Bank overdrafts had hit the limit and the banks were not interested in backing Chrysler any more.
3. Suppliers, car dealers and some senior executives had recommended that Chrysler should declare bankruptcy.
4. Lee kept persisting that Chrysler would find a solution to its problems.

He arranged marathon meetings with the bankers, who were aware of Lee's reputation, but seeing Chrysler's plight decided against giving any loans to the firm. Unruffled, he went to Washington and met some of his senator friends, who agreed to help. (There were a few senators totally opposed to any help to Chrysler.) His senator friend prevailed on the bankers, who agreed to consider giving the loan on a specific stipulation that the *US government guarantees the loan.*

Lee decided to meet the president of the USA and on his intervention the US government agreed to give the requisite guarantee on some difficult conditions like the following:

1. Chrysler would reduce expenses.
2. Get some capital of its own.
3. Defer payments even further to their suppliers.

At this juncture, it was the sagacity, statesmanship and discipline that Lee possessed, which was of great importance to Chrysler. He took the following actions in order to meet with the loan stipulations:

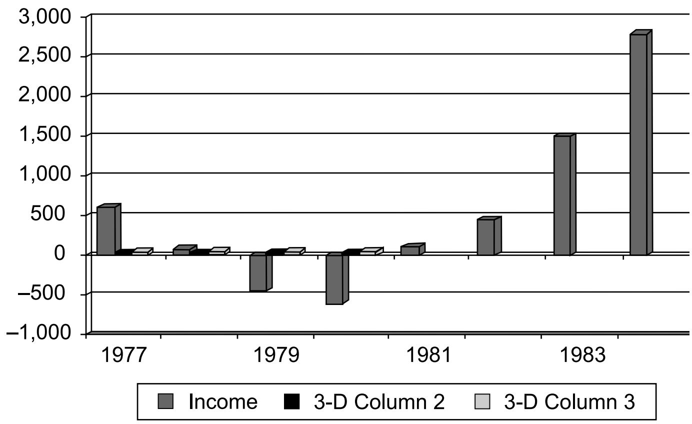
1. Lee cut down his own salary to US$ 1 till the good times were back at Chrysler and the loan had been repaid.
2. With his immense persuasive power he made other managers work with full force and vigour at half their salary.

3. Lee met all the suppliers personally and after he had explained the position they agreed to deferred payments while continuing the supplies.
4. Lee arranged some loans from private placements from his friends and completed the compliance of the US government loan guarantee

Lee got the money, invested it in R&D. The new product was test marketed and the sales boomed (see Figure 23.4). Repayment started and was over in three years—two years in advance. Banks volunteered to give more money as required by Chrysler.

Chrysler was truly on its way to becoming a force to reckon with in the automobile business again. It could ward off the competition from Japanese cars for quite a while.

Figure 23.4 Chrysler's Operating Income (in US$ million)



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About the Author

U.C. Mathur is Dean and Professor at Integrated Academy of Management and Technology, Ghaziabad, an ISO 9001:2000 prestigious management institute. Previously, he was a Senior Professor at the Maharishi Institute of Management, Noida, as well as the Director of the PGDBA programme there. He has 36 years of experience in the corporate sector, has held positions like CEO Escorts Telecom, President and CEO World Digital in India, and has served as a consultant in advertising, strategic audit and market surveys to various MNCs and major Indian companies. A prolific writer, he has several management textbooks and inspirational management books to his credit.

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