Sustainable Growth in Global Markets

Strategic Choices and Managerial Implications

Rajagopal

Sustainable Growth in Global Markets

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Sustainable Growth in Global Markets

Strategic Choices and Managerial Implications

Rajagopal
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To my children Ananya and Amritanshu

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Foreword

How to sustain and grow a business in an expanding global environment of increasing complexity and ever-accelerating pace of change – technological, political, cultural, and legal? This question has emerged as the critical challenge for most companies in the twenty-first century. Staying ahead of the competition through product and managerial innovation has always been at the heart of business success. But in contrast to the decade-long cycles of the last two centuries, which to a large extent remained geographically well defined (even when reaching across borders), the changes in today's marketplace are measured in years and have an unpredictable and sometimes chaotic character. Forging a comprehensive, multilayered strategy that is integral to the company's managerial process is the central theme of Rajagopal's book. The discussion evolves along several principal dimensions – internationalization, consumer roles and preferences, market research and specificity, continued learning and assessment, developing a strategic mix, and formulating strategic approaches for sustainability and growth.

The multifaceted competition of the global marketplace is affecting the entire business range – from emerging companies to large multinational corporations. Many startup companies face an entrepreneurial crisis when they identify flaws in their marketing strategies mid-way through their customer outreach. Frequently changing market dynamics, technology and consumer preferences may discourage managers from making tactical decisions to gain myopic advantages. Furthermore, as companies move toward larger market segments, they face the tension between global approaches and specificity of the local markets. Most companies are able to forge a marketing strategy by observing the success of others in the marketplace, but they have difficulty implementing it. Rajagopal brings together the complementary necessities of a strong sense of strategic direction, appeal to customers, effective managerial skills, and successful implementation.

The strategic question for a company today is not 'what more can we make?' but 'how best can we meet customer demands?' Consumers and their increasing power over the market have driven companies at global scale to reform backstage activities such as customer-centric manufacturing and selling techniques to local tastes. Such business strategies now rule competition in the marketplace. However, many companies fail to reconstruct their marketing-mix to make it suitable to the requirements of local markets and thus to uphold customer preferences and establish value for money through innovative differentiation and competitive advantages. The instinctive reaction of most multinationals to camouflage their brand in local markets has not always been encouraging. Based on an analysis of consumer roles in the international business environment Rajagopal delineates the convergence of marketing-mix strategies with marketing research and organizational designs, and offers valuable strategic choices and managerial implications for companies to outgrow their business despite market uncertainties and competitive pressures.

A continuous learning process from tracking industry rivals across markets and appropriately adapting the competitive behavior of the company are critical for business success. Rajagopal discusses various strategies to drive business growth through appropriate market segmentation, targeting, and diversification strategies. A related need to develop clear and comprehensive contingency plans derives from the higher incidence of abrupt changes in market behavior. Thus, right strategic choices and driving effective managerial implications are the inevitable requirements for all companies irrespective of size and region. Globalization has pushed the market competition to its most chaotic form in many industries, such as consumer products and services. Chaos is commonly caused by congestion of competitors. However, small differences yield widely diverging outcomes in dynamic market systems, often rendering long-term prediction impossible in a market or a business. Companies with continually evolving business strategies can perform better and flip the chaos, complexity, and pressure to manage the new market endeavors. This book addresses the causes and effects that could drive business growth despite market odds, and is a timely and substantive contribution to the field of international business management. It can serve as a reference for graduate and undergraduate students of international business management and help working managers refine their knowledge on the subject. I appreciate the efforts of Rajagopal in bringing this timely and significant contribution to the literature on business management.

Tanya Zlateva
Dean *ad interim*, Metropolitan College
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September 2015

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Preface

Globalization has opened many routes to marketing including marketing opportunities through the Internet and virtual shops. However, amid increasing market competition, the rules of the game are subject to change without notice. In this process a company must thoroughly understand all the moves of rival firms from various sources and develop the right strategies. Companies need to understand the market ambience, resources, society, and culture, and analyze the competitive choices on production and business operations to determine their posture in the marketplace. An intriguing aspect of the marketplace is that the nature of competition can change over time and create uncertainty in the business of a company. Thus market competition can radically alter the strategic choice of the company to fit into the industry and the market to do business successfully. Competing firms try to attract customers by various means to polarize business and earn confidence in the marketplace. As the trend of market expansion of companies in the twenty-first century is leaning towards doing business in developing countries and reaching out to the bottom-of-the-pyramid market segment, strategy development and administration is becoming more complex. To thrive in competitive open markets companies need to map their strategic choices on a business performance matrix in reference to various vital variables such as cost, price, innovation, differentiation, distribution, technology, promotion, customer value, and psychodynamics. Companies need to adapt to new roles as low-cost entrants, focused segment marketers, and providers of shared utilities. They must also be prepared to make new strategic choices as the structure of the industry changes.

For most organizations, developing strategy involves multiple dilemmas due to unclear competitive moves and corporate objectives. As consumers are becoming the kingpin of business, most companies are trying to co-create value at the expense of profits, jeopardizing long-term financial performance over short-term competitive gains through tactical marketing approaches. Organizations view such market adjustments as complex strategic choices that are inevitable in the current global business scenario. A portfolio of strategic options gives organizations the greatest flexibility and adaptability while scenario-based strategy maps can help create these options. It is necessary for successful business companies to look for a place of business that provides them maximum location advantage. Business cordoning or securing trade boundaries is essential for building competitive strategies to attack rivals across regions. Even small business companies can compete globally with firms of all sizes through the Internet. Distribution channels, franchisees, carrying and forwarding agents, retailers and mailers with value-added services represent an increasingly intense business rivalry or competition in all markets or competitive domains. As the globalization of firms increased during the early twenty-first century, the strategic choices for companies on business destinations swiftly expanded in the competitive marketplace. Most firms that are new and at the grassroots of the market have started to redefine key aspects of their marketing-mix and have grown stronger to sustain market competition by innovation and customer-driven technology solutions. Conventional business measures are shrinking and companies are exploring new strategic options by investing in market-oriented technology and co-creating innovations in products and services with consumers.

The rapid rate of change in corporate management continues to escalate. Globalization and shifts in consumer preference towards products and services has generated chaos in the market due to the rush of firms, products, and their business strategies. This book discusses strategic choices in reference to macroeconomic and microeconomic factors for companies to sustain business in the competitive marketplace. The strategic choices on social, legal, economic, political, and technology factors are discussed, considering changing political philosophies and government regulations, new products, growth, increased competition, and technological developments. Strategic decisions on these factors force companies to undertake steps to drive moderate change in business operations on a regular basis.

It is argued in the book that most firms aim to gain competitive advantage in the marketplace by driving tactical moves, inculcating small, cost-effective changes in marketing approaches. Sometimes such small changes are introduced in niche markets, which yield macro effects in large markets. Often strategic choices of companies lean towards developing competitive differentiations that enable consumers to realize value for money and build sustainable loyalty in the competitive marketplace. Such consumer perceptions may cause a large impact on the market towards market share and profitability. The book explains how to 'refresh' consumer value with small changes in marketing policy to produce larger and sustainable effects in threshold markets in order to gain competitive advantage. As competition among the firms in the marketplace across the territory and market segments is perennially growing, the butterfly effect has become much more dispersed, complexity in market predictions has increased, and tactical interventions have turned to business models involving consumers and social media. Companies successfully operating in the global/local marketplace need to be able to overcome the organizational barriers and transaction costs involved with innovation, technology application, and managing intellectual property. They also need to develop effective production, operations, and marketing strategies. The book discusses the power of firms towards sensitive market interventions through marketing-mix strategies, innovation, and technology application to click larger effects with smaller differentiations.

This book provides a comprehensive introduction to the concept of market transitions and strategic business management. It covers complex elements of market management, analyzing economic, management, and behavioral theories and applications like macroeconomic and microeconomic theories, international financial strategies, PESTL (political, economic, social, technological, and legal) factors, modes of entry, export–import strategies, marketing-mix strategies, and organizational design for doing international business. The core discussion in this book begins with the concept of market dynamics, followed by analysis of change behavior of markets and its components. The book reviews the behavioral theories on marketing and previous research, and analyzes the strategic and tactical stewardship of firms in business for sustainable growth in the global marketplace. The book discusses new strategies for companies to grow business in international markets and develop co-creation strategies in association with market players and consumers. This book significantly contributes to the existing literature and serves as a learning post and a think-tank for students, researchers, and business managers.

Strategy making has become a tough challenge for companies in competitive global markets. The growing competitive dynamics among firms drives market uncertainty. No longer in the twenty-first century will conventional strategic plans guarantee the success of companies in doing business. The speed of strategy implementation matters in the marketplace today to gain first mover advantage. But at the same time only companies able to make the right strategic choices are found fit to do business in international destinations. Successful companies develop strategies to do international business considering comparative advantages at the destination and competitive gains within the market or industry. However, the principal issue in driving companies to be fit for doing international business is the quality of the strategic choices to ensure competitive success. Well-managed companies meticulously develop marketing strategies to establish business in overseas destinations. They benefit from enormous economies of scale in production, distribution, marketing, and management. New enterprises in the global marketplace put efforts into innovation, competitiveness, and application of technology for sustainable growth. A fundamental management challenge, particularly in large, diversified global companies, is the stress of engaging in continuous innovation to stay competitive in the market. Wise companies in the competitive marketplace need to develop strategic choices to drive low-cost and customer-centric shifts in business strategies and create an emotional appeal to take greater advantage in the mass market. Most firms generate such effect by making a small change in strategy in reference to product, price, place, or promotion to gain higher sale and profit in a short span.

This book is divided into ten chapters spread across three parts comprising mapping market scenarios, preparing destination markets, and developing functional strategies. Chapter 1 discusses new trends of globalization and their impact on business growth due to ideological shifts in public governance and market economies. The theory of comparative advantage is discussed in reference to the attributes of 'factors of production' towards choosing the right destination market and matching corporate strategies of companies with growing competition in the global marketplace. Critical issues concerning drivers of globalization that influence competition in markets and business growth, and the path of business growth of a company in the international market lifecycle are also addressed in this chapter.

Chapter 2 discusses international finance scenarios and prospective strategies for doing business in destination markets. The evolution and role of the International Monetary Fund, which has been the backbone of the economy of member countries in regulating the balance of payments and trade deficits, is discussed in detail. The chapter also discusses country strategies towards stabilizing foreign currency exchange rates and financial integration. This chapter argues that opportunities for foreign direct investment in developing countries are one of the major attractions for multinational companies to choose growing market destinations. The chapter also considers the decisions companies can take for choosing a market destination by examining the purchasing power parity status of a country. Corporate finance management strategies in reference to arbitrage and hedging are also discussed in this chapter.

Chapter 3 examines economic systems and cultural influences on the marketing strategies of companies prospecting to expand their business with developing destinations. The macroeconomic and microeconomic factors that enable companies to take the right decision in choosing destination markets are discussed in this chapter, along with economic and cultural attributes influencing business decisions. In addition, the impact of cross-cultural variables and consumption culture on the international business of companies in the destination markets are critically examined and arguments for developing suitable strategies illustrated.

Though globalization has influenced the political ideology of most developing countries and has driven liberal economic and diplomatic policies to blend international business with local markets, political interventions are unavoidable for overseas companies. On the contrary, governments in some developing countries are ineffective in responding to international business conduct such as implementing intellectual property rights, which may cause deep concern for multinational companies to do business in destination markets. Chapter 4 addresses the issues on changing political ideologies and business growth, political interventions, political risk assessment, international legal perspectives, host country laws, tariff barriers, and anti-dumping regulations in destination markets.

Chapter 5 examines both informal and formal methods of market research and evidence that experienced marketers use. The chapter addresses issues concerning customer voice and indicates that decision makers who listen directly to dissatisfied or lapsed customers and pair those conversations with formal data develop a more visceral idea of consumer choices and on designing dynamic marketing campaigns. Among other issues the taxonomy of market research, statistical research methods, the framework of market information management, and organizational design are addressed in this chapter. Globalization has stimulated multi-dimensional business growth across all regions and has intensified market competition at all levels. Since the late twentieth century the business dynamics has turned bidirectional, wherein multinational companies tend to penetrate in the emerging markets and at the bottom-of-the-pyramid market segment, while regional companies attempt to go global. Under such dynamics companies need to establish both internal and external fit within the organization among their employees as well as with market players.

Chapter 6 addresses the growing macro and micro issues in emerging markets resulting in the growth of business and the stages of economic development. As the competition increases in the marketplace, it becomes complex to manage. This chapter meticulously focuses on conducting competitor analysis and developing effective competitive strategies. Various strategies on modes of entry into international market destinations and common procedures for exporting products are also discussed in this chapter.

Chapter 7 provides a significant analysis of the immense diversity of the market and offers an approach for evolving true marketing objectives. The chapter also shows how market segmentation is required for firms to drive marketing strategies most effectively and to reach a customer base in order to stimulate purchase intentions and develop loyalty. This chapter argues that demographics, income level, consumer interests and behavior, affiliation, and occupation are among the most common factors of segmentation, although multifactor segmentation embeds in customer-centric marketing practices. Niche marketing, targeting, and positioning of the products also constitute core discussion points in this chapter.

The following chapters from 8 to 10 focus on discussing the functional strategies of the basic marketing-mix elements comprising product, price, place (distribution), and promotion that companies can develop for doing business in destination markets. Chapter 8 explores issues on defining products and addresses developing product strategies in reference to determined segmentation, targeting, and positioning. Public policy issues concerning products, new product development, the stage gate process, and product customization strategies are also critically examined in this chapter.

A methodical approach to strategic pricing analytics based on a set of best practices in reference to maximizing profit is discussed in Chapter 9. The chapter guides readers on how to identify and exploit pricing opportunities in various business contexts and how to develop appropriate strategies. In addition the chapter discusses a lifecycle approach to pricing, common pricing strategies, pricing dynamics in a competitive marketplace, direct and indirect distribution channels, and new dimensions of distribution management in international markets.

Chapter 10, the last chapter of the book, addresses the issues of promotion-mix, new advertising and communication strategies, organizational structure, and supporting marketing strategies for companies intending to do business in international destinations.

The book provides a comprehensive introduction to the concept of market and business management in reference to expanding activities outside the home market. It covers complex elements of marketing management by analyzing behavioral theories such as the theory of comparative advantage, theories of macro and micro marketing economics, socio-cultural theories, and various contemporary concepts of international business management. A broad foundation of this subject beginning with a discussion of the concept of market dynamics followed by analysis of change behavior of markets and its components form the core discussion in this book. The arguments on fitness to do business in international markets delineate critical insights on the significance of leadership, building consumer value through innovation, tracking the external environment for organizational change and relevant general factors as well as important emerging trends towards building an innovative venture.

Various perspectives of fitness to do business in destination markets for emerging companies are addressed in this book in reference to the impact of political, economic, social, technological, and legal perspectives that drive business growth and company competitiveness. The contents and coverage of the book are spread across the various macroeconomic and microeconomic factors that influence companies towards making the right choice of overseas destination to do business. In reference to strategic choices and managerial implications, this book argues that companies need to analyze socio-demographic, political, financial, economic, cultural, legal, and competitive factors to make a right decision for expanding their business longitudinally across the regions. Policy makers and business strategists are searching for new models to understand the underlying dynamics of this global reshuffling of production and marketing activities of firms, and how small changes cause large effects in business. This book offers solutions to managers in reference to market competitiveness and shifts in business strategies in regional and global markets, and discusses the causes and effects. This book reviews categorically previous literature on marketing management and analyzes the strategic and tactical stewardship of firms in business for sustainable growth in a global marketplace. There is discussion of new concepts related to market planning and co-creation approaches to manage business successfully in destination markets. This book significantly contributes to the existing literature and serves as a learning post and a think-tank for students, researchers, and business managers on the subject.

I have been teaching international marketing management and international business management courses in undergraduate and graduate programs for over a decade during which my knowledge, insights, and critical thought process have increased considerably. This book is an outcome of the continuum of the thought process from a classroom to a wider audience. I have taught the above courses from the perspectives of delivering contemporary practices in marketing management to students, putting them in the shoes of managers so that they can analyze market situations and gain confidence in choosing the right strategies to do business in overseas destinations, whether as entrepreneurs or in service of companies. Global markets are part of new generation management involving stakeholders in developing customer-centric business strategies and growing sustainable in the competitive marketplace. The book also argues for several consumer-centric strategies to associate consumers as pivots in driving new businesses in new markets.

Initially, I worked out a teaching agenda on international business management and business expansion models for global companies and discussed them at length in the classroom, encouraging timeless discussions on the subject that helped in developing new conceptual frameworks on the subject. Some of my research papers on business modeling and customer-centric marketing in emerging markets have been published in internationally refereed journals, driving new insights on the subject. Accordingly, filtered and refined concepts and management practices have been presented in this book that are endorsed with applied illustrations and an updated review of literature on managing business in overseas destinations.

I hope this book will contribute to the existing literature and deliver new concepts to students and researchers to pursue the subject further. Reading this book, working managers may also realize how to converge best practices with corporate strategies in managing business in destination markets while students can learn about the new dimensions of marketing strategies.

Rajagopal
Mexico City
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He has been listed with biography in various international directories. He offers courses on Competitor Analysis, Marketing Strategy, Advance Selling Systems, International Marketing, Services Marketing, New Product Development, and other subjects of contemporary interest to students on undergraduate, graduate, and doctoral programs. He has imparted training to senior executives and has conducted 60 management development programs.

Dr Rajagopal holds Postgraduate and Doctoral degrees in Economics and Marketing respectively from Ravishankar University in India. His specialization is in the fields of Marketing Management, Rural Economic Linkages and Development Economics. He has to his credit 45 books on marketing management and rural development themes, and over 400 research contributions that include published research papers in national and international refereed journals. He is Editor-in-Chief of *International Journal of Leisure and Tourism Marketing*, *International Journal of Business Competition and Growth*, and *International Journal of Built Environment and Asset Management*. Dr Rajagopal is Regional Editor of *Emerald Emerging Markets Case Studies*, published by Emerald Publishers, United Kingdom. He is on the editorial board of various journals of international repute.

His research contributions were recognized by the National Council of Science and Technology (CONACyT), Government of Mexico by the award of the status of National Researcher (SNI) Level II during 2004–12. Dr Rajagopal has held the honor of the highest level of National Researcher (SNI) Level III since 2013.

Part I
Mapping Market Scenarios

1
Understanding International Business

Globalization created new challenges for firms to survive in the competitive marketplace. Most firms are engaged in developing competitive strategies and innovative differentiations in order to stay sustainable and competitive in the global marketplace. Companies are also exploring new markets located in the mass, and bottom-of-the-pyramid consumer segments to gain competitive advantage. However, moving towards new destinations is often complex and it causes dilemmas in strategy development and implementation. This chapter discusses the overall impact of globalization on the market competitiveness and business growth of companies, and illustrates how factors of production can be analyzed to secure comparative advantages while exploring new market destinations. The drivers of globalization influencing the marketing strategies of companies doing international business are discussed in this chapter. The chapter also examines the problems and challenges companies face in selecting strategic choices to survive in the competitive marketplace.

Globalization has evolved over a long understanding of consumer behavior, needs, and matching competencies of firms to satisfy consumers, and uphold product, service, brand, and corporate values. In the twentieth century the corporate philosophies of companies tended to spin around conventional marketing maxims such as customer value, competitive advantage, and product focus. Such marketing dynamics drove firms to study the market, develop products or services that would satisfy customer needs and wants, develop an appropriate marketing mix, and meet their own objectives as well as provide customer satisfaction on a continuing basis. However, it became clear in the latter half of the twentieth century that the functional definition of marketing was narrow in its focus on market and competition. The broad philosophy of marketing firms till the 1980s was marketing *to* customers, which has now shifted to marketing *with* customers by associating them in the evolution of the firm's business. Globalization is a continuous phenomenon involving manifold change dynamics from innovation to organizational culture, and consumer behavior to competition in the market. In the twenty-first century globalization is growing within the triangle of challenges emerging from radical consumerism, digitization, and politicization. Corporate leadership has become critical as companies tend to increasingly invest resources, adopt the mind-set of experimenters to gain consumer attention and acquaintance, and orchestrate hybrid organizational models to harness diversity for gaining competitive advantage in the global marketplace (Ferraro and Cassiman, 2014).

Globalization and business growth

The focus of marketing has shifted from knowing everything about the market for products and services to knowing the customer in the context of competition, and the broader economic, social, and political macro forces to co-create marketing strategy for the mutual benefit of consumers and firms. Such a marketing philosophy emphasizes the benefits for consumers, stakeholders, and firms. Globalization has become a functional dynamics of emerging firms in the business environment today. Most firms believe that globalization is a synonym for the business growth, and invest perennial resources in developing a strategy for going global. It has become one of the most pertinent issues for managers of growing firms around the world. Many forces drive local enterprises to globalize by expanding their brand reach and participating in foreign markets through various modes of entry. In developed countries domestic markets have matured and firms are demanding to seek international markets, while in countries like Brazil, Russia, India, and China, firms are born global. A large number of companies in the USA are nourished by the huge domestic market but they typically lag behind their European and Japanese rivals in internationalization. Born global firms maintain dynamic growth in the competitive marketplace and achieve substantial international sales from an early stage of development despite economic and technological constraints. They internationalize rapidly as the period from domestic establishment to initial foreign market entry is often three years or less. Born global firms are emerging in sizable numbers worldwide. Until recently, international business was mainly the domain of large, well-resourced multinational enterprises. The appearance of large numbers of born global firms is revolutionizing the traditional character of international business and helping to reshape the global economy (Cavusgil and Knight, 2009). Companies intending to go global exhibit two apparent objectives – to take advantage of opportunities for growth and expansion, and business survival amid growing competition. However, firms that fail to pursue global opportunities will eventually lose their domestic markets and will be pushed aside by stronger and more competitive global firms. In the process of going global, firms need to adopt an innovative marketing strategy to withstand competing firms. Most firms follow a global perspective to expand their business across destinations instead of adopting a country-by-country or region-by-region perspective in developing their marketing strategy.

Globalization has moved through several change phases from capitalistic philosophy to democratic business notions involving stakeholders in the process of business growth. Before the recent economic recession in the Western hemisphere (2007–11) going global seemed to make sense to every company in the world to expand their scope of business. However, as globalization entered a different phase following the recession the nature of globalization changed to guarded globalization, which made companies secure their global movements by observing political and economic trends in their market destinations. The scope of carrying business in emerging destinations has become more problematic due to protective regulations by governments, which allows the opening of more industries to multinational companies as the political philosophy for business development is leaning towards both pro-globalization and pro-localization. This conception has driven the Darwinian dynamics of 'struggle for existence' and 'survival of the fittest' among companies, leaving international business in a fix. They are defining economic security more broadly and perceiving more and more sectors to be of strategic importance such as energy, agri-business, media marketing, and defense products and services. The new phase of globalization has also prompted the rise of state capitalism in some of the world's most important emerging markets and has altered the business fields for the multinational companies. Hence, most companies focus on the strategic importance of their industry to both the host and home governments in order to manage risk, and choose to establish alliances with local players, as Wal-Mart established an alliance with

Bharati Enterprise in India. Multinational companies seeking global advantage in emerging markets look for several new ways to add value abroad and enter multiple sectors to carry on their business or stay at home (Bremmer, 2014).

Globalization can be described as the combined influences of trade liberalization, market integration, international finance and investment, technological change, the increasing distribution of production across national boundaries, and the emergence of new structures of global governance. However, globalization in its radical sense should be taken to mean the development of a new economic structure, and not just conjectural change towards greater international trade and investment within an existing set of economic relations (Hirst and Thompson, 1996). The globalization thought process broadly includes the following attributes:

- Global marketplace
- Wide marketing opportunities
- Social and economic welfare
- Diversity and cross-cultural focus
- Theory of comparative advantage.

The global marketplace equipped with global communications has become the focus of the global business arena, which enables world markets to remain open and involved in fair competitive practices. At the same time, anti-globalization moves in the process of development protest against the hazards of suppressive strategies of global companies that affect regional trade entities. Efficient multinational companies from the leading countries enter the secured country markets and drain out the regional players from benefit market segments (Rajagopal, 2007). Globalization not only entails the economic process and free markets in relation to trade and competitiveness but also encompasses the quality of life, ecological concerns, corporate power of multinational companies, human rights and needs, and so on. Such complexity also embraces the social, political, and cultural dimensions of doing business beyond boundaries in the globalization process. Thus, globalization embraces a spread of the complex dynamics of general cultural evolution and diffusion of consumer cognition on a global scale (Brinkman and Brinkman, 2002).

Over the twentieth century, global business players were obsessed with achieving sustainable competitive advantage and securing a position within an industry that allowed them to be business leaders for the long term. Some organizations, like General Electric Company and Unilever, have succeeded with this approach. However, in the current competitive market and politico-economic edge, most companies with tactical strategies do not last long enough to rule the global marketplace. The forces driving the global marketplace today include innovation, technology, consumer value, the digital revolution, and regional trade agreements that relax barriers to entry, such as the North American Free Trade Agreement (NAFTA) between the USA, Mexico, and Canada, in force since 1994. The global marketplace is becoming uncertain due to frequent political, economic, social, technological, and legal changes. Hence, companies need a portfolio of multiple transient advantages that can be built within resilient determinants such as customer value. Transient advantages call for a whole new scenario involving business strategies that are more customer-centric than market-oriented or industry-bound. Companies that adapt to this shift can set broad strategic themes and then let consumers experiment with them, and social media may be activated to share the experience. Companies with such a strategy focus adopt decision metrics that support entrepreneurship and develop resistance to disruptive innovations that tend to prove shifts in consumer behavior (McGrath, 2013).

Operating in the global environment requires mastered skills to penetrate in host countries, particularly when trade barriers and government protections have been removed and business policies have been restructured. The concept of the global customer is gaining in importance every day and so is the global-customer-centric organization. The theory of comparative advantage suggests that firms may choose a destination to expand their marketing operation that offers relative economic advantage in factors of production (land, labor, and capital), technology, and managerial know-how. Comparative advantage in business may be defined as the ability of a firm to produce a particular good or service at a lower marginal and opportunity cost over another. Even if one country is more efficient in the production of all goods (absolute advantage in all goods) than the other, both countries will still gain by trading with each other, as long as they have different relative efficiencies.

Going global is an easy process for firms. Firms need to simulate the impact of their business in the global market in reference to their resources, target markets, and operational efficiency. Most firms concentrate on product markets by considering customers who seek the same benefits or to be served with the same products, services, innovation and technology regardless of the geo-demographic differences and cognitive behavior. There are a number of paradoxes in communicating product-marketing strategies in global marketplace. For example, paradoxical values may emerge within and between cultures while advertising products and services in the global marketplace. It is necessary for the firms evolving to the global scale to understand that markets are people, not products. There may be global products, but there are not global people; hence firms need to adopt a consumer-centric marketing approach in the global marketplace rather than going all-out in employing strategies to outmaneuver or outperform competitors in the marketplace (Svensson, 2012). The significant reasons for globalization of business include:

- Market saturation in the home country
- Innovation and technology among products and services
- Trade deficit and long disequilibrium in the balance of trade in the home country
- Increasing foreign competition
- Emergence of new markets
- Multi-domestic products and markets
- Availability of international finance
- Globalization and free trade zones
- Opportunities via foreign aid programs.

The most important causes of globalization are emerging trade opportunities, multi-domestic production matching consumer preferences in destination markets, and availability of international finance. Most firms are motivated to go global in view of the above-mentioned marketing components leading to sustainable international market integration. The information technology revolution has made it easy for firms to develop cross-border trade and capital movements along with the political incentives to do so. However, government can still restrict the multi-nationalization of production, but most countries increasingly choose to liberalize the flow of products and services for the macroeconomic benefits. In the case of international marketing firms, the trade liberalization policies have opened up domestic markets for exports and imports, encouraging even small and medium firms to participate in international marketing operations (Garrett, 2000).

Continuous growth in innovation and technologies are the principal stimulants for companies to gain competitive differentiation and attain leadership in global markets, and high brand equity to drive consumers toward new buying preferences and explore new market segments.

However, it is often hard for consumers to adopt innovations, gain confidence in deriving values appropriately, and derive competitive advantages from the innovative offerings over existing and predetermined products and services. Consumer perceptions on innovative products and technologies are largely influenced by social and informal networks. Such interconnections among consumers and companies are so strong that a new product's adoption by one player often depends on its systematic adoption by other players. Figure 1.1 exhibits the symbiotic relationships between innovation, technology, and market competition in the global marketplace.

Traditionally companies launch innovative products by targeting unique customer segments or developing compelling value propositions. However, companies engaged in continuous innovations orchestrate a change of behavior among consumers across the market segments in order to expand its market outreach. Companies engaged in innovation and competitive gains in the marketplace should explore new market segments, develop and implement strategies that maximize the chances of getting gaining the competitive advantage, complement power players, and position the innovation as an enhancement to products or services. Innovation and technology companies tend to offer coordinated switching incentives to the players (social media, retailer, and salespeople) who add to the innovation's benefits, the players acting as channels to adopters and early adopters to ensure the value of the products and services (Chakravorti, 2004).

Continuous growth in innovation and technology in consumer products and services drives new preferences among consumers and attracts competition in the marketplace. Figure 1.1 demonstrates that most competitors, who also emerge as new entrants, develop consumer-centric innovations and technology and offer cost-effective products to demonstrate competitive advantage. New emerging markets look for sustainable innovation and technology, extended outreach, and value-based deliverables to consumers. Additionally, public diplomacy, international organizations, and political power players also try to command the markets to some extent by regulating technology intervention in public and social life. Consumer preferences are largely governed by social and peer influence, and the utilitarian philosophy that delivers value-added benefits to consumers over competing products. E-commerce supports consumers in convenience shopping while booms and busts in technology drive market competition in global markets.

The patterns of competitive success in leading countries exhibit that companies achieve competitive advantage through innovation and

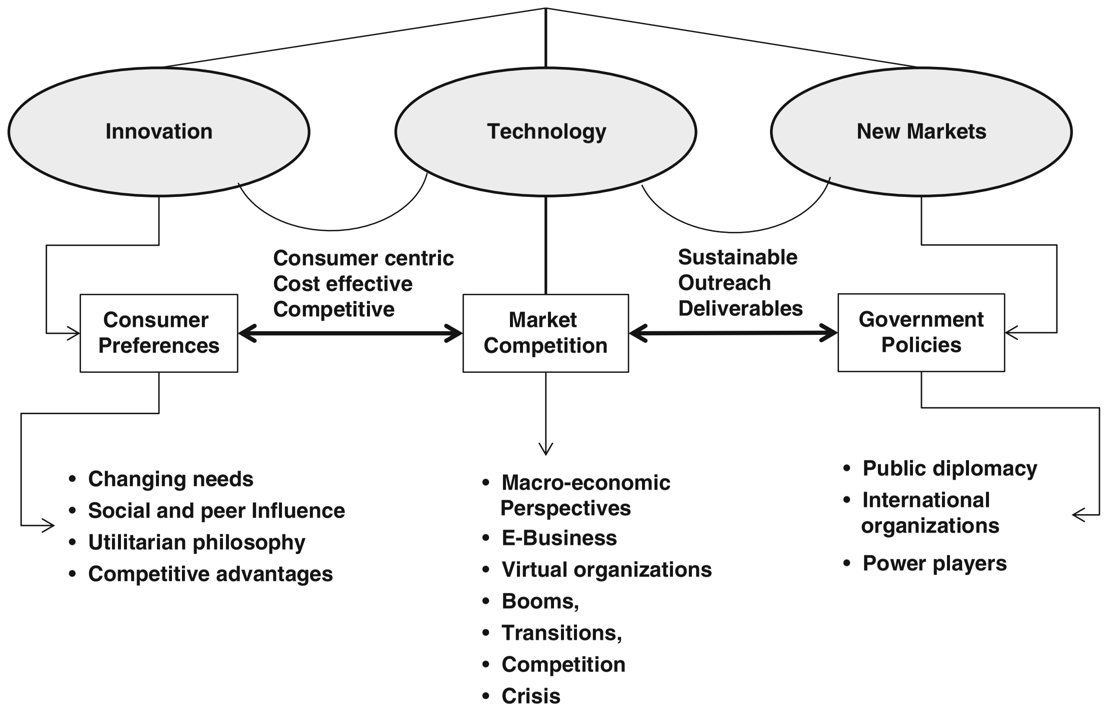

Figure 1.1 Innovation, technology, and market competitiveness

technology. The dynamism of the companies to innovate is affected by four broad attributes comprising factor conditions, demand conditions, related and supporting industries, and the strategy, structure, and rivalry of the firms. Government and companies act as catalysts and challengers in managing competition (Porter, 1990). However, innovation and technology differentiation as a driver of competitiveness has appeared to be a cost-push strategy for companies and is often risk averse. Hence, price has become a critical factor to determine market competitiveness in the global marketplace. Raising prices to cover the costs of innovation and technology differentiation, and defend profit margins, has emerged as a principal strategy for most consumer products companies. Low prices attract mass markets and assure sustainable market share but most companies tend to increase prices in order to cover their costs on innovations and confine innovations to niche markets. To avoid this trap of competitive pricing, companies need to architect the value chain in the market process from the raw materials stage to end user prices by overriding the cost components (Thompson, 1984).

Ideological shifts and market economies

The manifold impact of globalization during the twentieth century has not only shifted market patterns but has also led to remarkable structural changes in the economy of developed and developing countries. The globalization effects apparently lean towards the capitalistic economic system advocating liberal trade practices. Countries following socialistic economic patterns have been unable to receive global market benefits to the full extent. The increasing liberalization of markets has driven companies to create new markets in potential destinations to expand their production and business operations. Corporate efforts of companies and business-friendly initiatives of various governments are offering destination-level competitive advantage for firms. However, companies often find that it is difficult not only to create markets but also to cope with state requirements to do business in the new destinations despite their potential to generate competitive advantage. Wal-Mart, a global retail giant, experienced a turbulent landing in India, though it had evaluated the Indian market as a high potential market in South-East Asia. According to its foreign corporate investment policy, India does not allow foreign direct investment in the domestic retail sector. Wal-Mart had to partner with Bharti Enterprises – an Indian retail company – to get into the Indian market. However, Wal-Mart management was determined to serve India and its people through its cash and carry business. Management believed that the company had the supply chain infrastructure, direct farm program, and supplier development that enabled it to make good investments and provide good returns for its shareholders. The Indian government requires retailers to source 30 percent from small suppliers, which might restrict procurement operations for Walmart and might lead to a challenge to comply with such a requirement (Loeb, 2013). Such politico-economic ideology largely occurs in democratic destinations that lean towards protecting domestic industries and markets against the penetration of multinational companies. Business in new destination markets sometimes appears more as a compromise than a promise due to political and economic pressures.

Most companies develop their strategy discreetly to master the market environment by understanding market competition and anticipating political and economic shifts in the destination countries. Companies gain competitive advantage through privileged access to customers in the destination markets, and they tend to overpower the competitors in building their unique posture. For instance in markets with relatively fewer competitors, companies focus on customer-centric strategies to build loyalty and gain sustainable market share. Thus, competitive advantages need to be architected in view of corporate goals and the macro environment comprising politico-economic conditions and market competition. If local or domestic companies have even a brief success in earning greater than normal returns on investment, new entrants adapt to grab a share of the profits by developing competitive differentiation. For firms operating in such markets, a better option is to build a sustainable strategy and run the business as efficiently as possible rather than trying to gain short-run advantages through untenable tactics. Developing countries with large demographic and complex socio-economic structures often build barriers for multinational companies to enter into local markets and make them competitive. The two most powerful competitive advantages that multinational companies achieve by overriding the politico-economic policies in potential destination countries are customer captivity and economies of scale. However, in developing countries where an open market economy is encouraged, intensive market competition outgrows and establishes a capitalist business philosophy. Companies entering such markets take maximum unforeseen risk to derive advantages by securing niche markets initially and later reaching more complex market arenas (Greenwald and Kahn, 2005). The path of politico-economic ideological shifts across countries affecting the international trade and economy is shown in Figure 1.2.

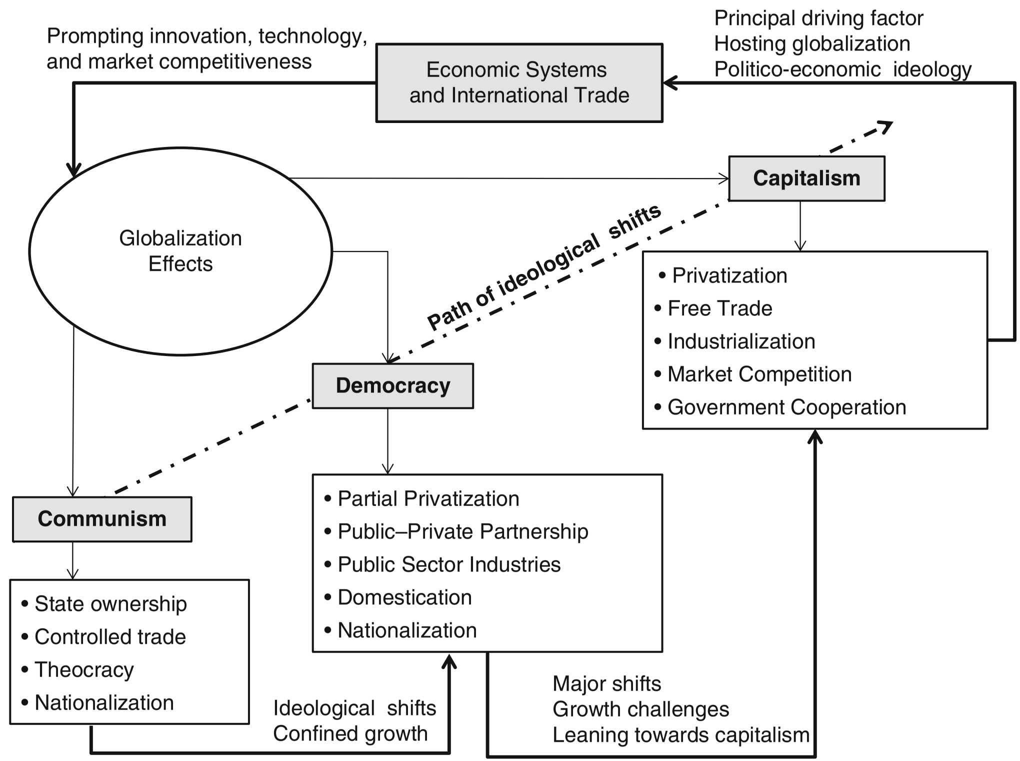

Figure 1.2 Ideological shifts and economic reforms

Broadly, three politico-economic ideologies are fostered across countries, namely, communalism, democracy, and capitalism, each with their confined merits and demerits. However, there have been continuous shifts in these ideologies, which tend to transform to the ideology closest to offering better economic advantages. Communism emerged from the ideology of Karl Marx in the mid-nineteenth century. It focused on the concepts of equality of income and wealth in society and common ownership of good and services. This ideology portrayed the state as a powerful entity to govern production and marketing activities, and encouraged state ownership, controlled trade, and nationalization of companies. Theocracy emerged over a period as a diversified school of thought, which allowed governance of the state as an act on behalf of God. Marxism-led ideology subsequently gained support across much of Europe, and a communist government seized power during the Russian revolution, leading to the creation of the Soviet Union, the world's first Marxist state, in the early twentieth century. Some countries like Russia and China adopted communism as a politico-economic convention and nurtured largely domestic markets by discouraging international companies from penetrating until the late twentieth century. As globalization whirled over the Western hemisphere in the mid-twentieth century and industries across countries have experienced the benefits of capitalist business, the communist ideology that dominated in some countries tended to blend with capitalism (Mintzberg, 1996).

The growing capitalistic concerns among multinational companies encourage the privatization of manufacturing and services, free trade, and drive market competition. Capitalism has grown in the twentieth century within two major philosophies – managerial capitalism and shareholder value capitalism. The first, managerial capitalism, emerged in the early twentieth century, and is defined by the then radical notion that firms ought to have professional management. The second school of thought in business evolved over the 1970s, emphasizing shareholder value capitalism. Its governing premise is that the purpose of every corporation should be to maximize shareholders' wealth. Theoretically, if firms pursue this goal, both shareholders and society will benefit. But in reality shareholders often experienced dissatisfaction in realizing their expected values. Now, in the twenty-first century, customers have become the center of the business universe (Martin, 2010).

The political and economic system is largely woven around the people of the country, and it advocates protectionism in support of the public interest. The business environment in democratic economic systems encourages localization, partial privatization, and public–private partnerships. Governments in democratic countries build strong public sector industries with state control and also lean towards nationalization and domestication of companies. Five rising democratic countries at different stages of democratic consolidation and economic development, comprising India, Brazil, South Africa, Turkey, and Indonesia, collectively known as IBSATI, illustrate a positive correlation between political governance and economic and social progress. These countries excel in blending local business with global industries, and are increasingly asserting themselves as important international players in the fields of governance, economics, and peace and security. The democratic governance philosophy allows international companies to partner with local business houses and offers win/win market conditions. The IBSATI democratic countries have made distinct choices in the twenty-first century to transition towards greater openness both politically and economically in setting themselves on a path towards renewed business and economic growth (Piconne and Miller, 2013).

Comparative advantage theory

Globalization and the need for omnipresence have driven a bidirectional impetus in the twenty-first century among companies to adopt a global/local posture in their business endeavors. Consequently, multinational companies are striving to take their place in bottom-of-the-pyramid market segments and expand their outreach into the mass markets, while local companies are exploring the opportunities to grow global. Thus, every company is engaged in mapping the comparative advantages of the factors of production comprising land, labor, capital, technology, and managerial know-how across potential destinations. Companies choose to move their production and business operations into those destinations that offer potential advantage on the costs associated with the factors of production.

In the nineteenth century the economist David Ricardo developed the theory of comparative advantage, which has become one of the guiding principles for companies willing to expand their business geographically. This model demonstrates the gains that result from trade between nations at the macro level and the profitability for companies at the micro level. As the competition in the global marketplace grows continuously companies meticulously analyze both the competitive and comparative advantages in expanding their business internationally. There have been structural shifts in the world economy since the mid-twentieth century that reflect on the comparative advantage of international destinations. These changes leave few choices for firms facing import competition. If the global advantages acquired by international participation are not sustained, competition reverts to domestic markets among firms with different corporate names (Kogut, 1985). In modern times the comparative advantages for exploring business opportunities in destination countries are reviewed by companies from the perspectives of benefits over government policies and the sustainability of business in comparison to home country or other destinations. The factors of comparative advantages that attract companies to overseas business destination are illustrated in Figure 1.3.

Most companies aiming to explore manufacturing and business operations in destination countries look for comparative advantages over land and natural resources in reference to the availability and government policies to acquire land, as exhibited in Figure 1.3. Many developing countries have flexible policies to allocate land to overseas companies to carry out predetermined manufacturing and logistics activities. However, land acquisition is often not an easy task for an international company due to the resistance of local people. Acquisition of agricultural land for industrial purposes is restricted in many countries. Another factor that offers significant comparative advantage to companies interested in doing business in foreign countries is the availability of manpower, employment regulation, and the minimum wage policies of the government. As manpower in developed countries is available only at a high wage rate, a lower wage rate with the ready availability of a local workforce draws international companies to such destinations for manufacturing and business operations. However, despite an abundance of manpower and low wage rates, labor management often appears to be difficult in developing countries due to stringent labor laws. In India and China unionizing the workforce is legal and the labor courts lean towards the welfare of employees. Various international trade agreements help in resolving labor issues between the countries. However, multinational companies also engage in lobbying in developing labor conditions favorable to them. Nike, for example, benefits from the low cost of labor in various manufacturing destinations in South-East Asia, where the company can escape from the tighter enforcement and regulations of the USA and Europe.

Government investment policies, like foreign direct investment (FDI) and joint venture programs (JV), with the benefits of tax flexibility, low interest rates, and flexible policies of repatriation of funds including profits, attract foreign companies towards such destinations. Developing

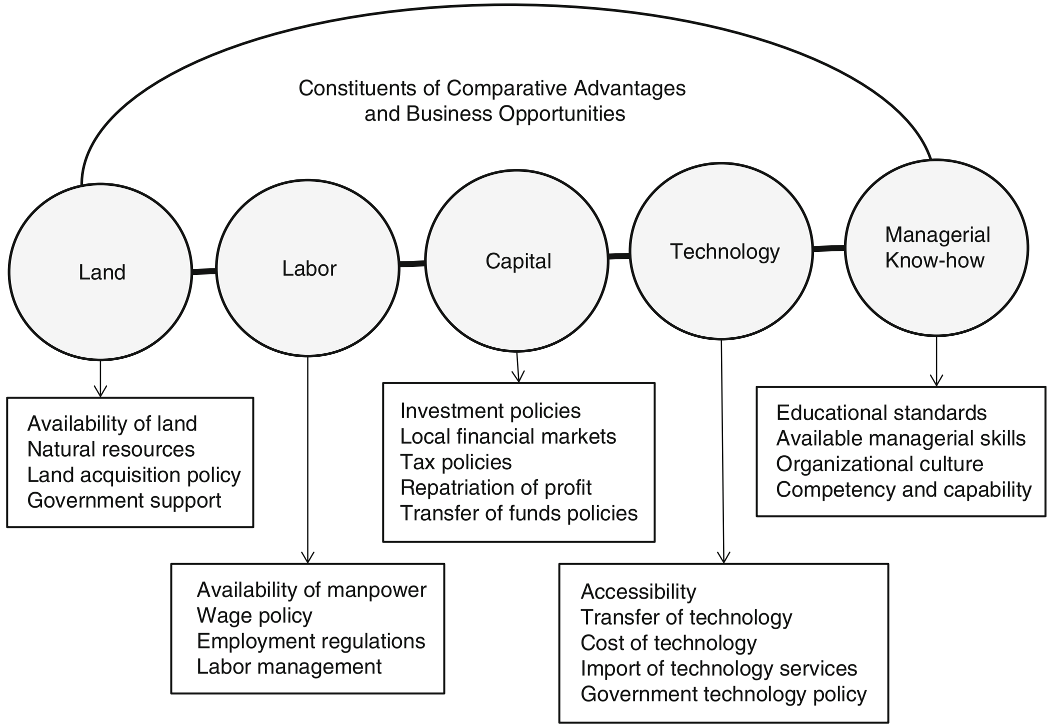

Figure 1.3 Drivers of comparative advantages affecting international business opportunities

countries encourage FDIs in selected sectors and allow foreign companies to participate through JVs in manufacturing and business operations in the consumer sector. FDI and JV opportunities are offered by both the developed and developing countries, and as the globalization is rapidly growing, there appear bidirectional movements of companies in carrying out investments in both types of destinations. The outward FDI of China is steadily increasing and is targeting the USA as a beneficial destination for investments in potential manufacturing sectors such as consumer electronics, automobile parts, consumer durables, and mass consumer products. However, Chinese FDI in the USA faces challenges in cultural, marketing, and technological aspects besides the fitness of politico-business ideologies (He and Lyles, 2008). Technology and managerial know-how elements are also important determinants of comparative advantage for companies in choosing the right overseas destination for manufacturing and business operations. Destination markets that have low costs for accessing technology, like information and communication technologies for use of Internet and mobile communications, and offer low charges for on-line banking and insurance services, and encourage seamless office operations, appear to be the right choice for multinational companies for doing business. In some countries governments restrict the import of technology in generic areas such as food, textiles etc., if any threat is foreseen towards the disruption of the local economy.

Comparative advantages in a destination country emerge from various macroeconomic factors such as monetary and fiscal policies of the country. However, local competition, corporate moves, and business strategies determine the micro perspectives leading to competitive advantages. It is necessary for companies to draw a distinction between competitive and comparative advantages, and determine how frequent the structural shifts in global and local market economies are. It may be argued that these structural changes in reference to socio-cultural behavior, communications, consumer preferences, market regulations, politico-economic governance, and corporate movements determine comparative advantage. The impact of these changes narrows the choices for firms facing import competition and possessing marginal competitive advantage in the destination market. If the global advantages gained through international participation are not sustained, markets revert to domestic competition among firms (Kogut, 1985). As China's economy has grown over the twentieth century by exploring the opportunity to penetrate its products globally, the competitive advantage for multinationals is narrowing as well as becoming challenging. Since the mid-twentieth century foreign companies have shown a trend to move to new destinations that are less competitive and seek out better strategic choices that are sustainable. Now, foreign firms can actually go after the Asian and Latin American rural markets as it appears to be a right strategy at the right time. Such strategic moves of international companies can be justified in view of the improvement in infrastructure, workforce, and regulatory environment in these destinations. Improvements in business and communication technology, and physical infrastructure in these regions are making it possible for prospecting international companies to lower their costs to reap new competitive advantages. In order to reap the benefits, international companies nurture their efforts at the macro level and also tailor local strategies by cautiously setting up joint ventures and mitigate risk in sensitive fields such as innovation, technology, and theft of intellectual property (Lieberthal and Lieberthal, 2003).

Drivers of globalization

There are five major drivers that propel companies towards globalization, including market, competition, cost, technology, and government. First, *market drivers* are considered among the strongest forces that push the process of global marketing, and comprise the needs of local customers, global customers, global channels, and transferable marketing. Universal customers' needs become a compelling factor for multinational companies when customers of different countries have the same needs in a product category. Free trade and unrestricted travel have created homogenous groups of customers across countries in reference to specific industries. However, some markets that typically deal with culture-bound products like food and beverages, apparel, and entertainment strongly resist the shift towards globalization and remain multi-domestic. On the other hand, global customers need the same products or services, such as the Eastman Kodak Company or Hilton Hotels in many countries. Global distribution channels and logistics companies offer seamless transport, storage, and delivery services. A firm can expand internationally provided its channel infrastructure meets the distribution needs of the company. Hence, integrated networks strive to bring multinational companies close to global distributors and retail stores like supermarkets and departmental stores in order to generate a systems effect. Celebrity endorsement is applied to impulsive social marketing ideas on brand names, packaging, advertising, and other components of the marketing-mix in the different countries.

Nike's campaign anchoring the basketball star Michael Jordan improved the brand in many countries. This is how the good ideas of multinationals are leveraged the world over.

Secondly, *competitive drivers* support companies in appropriately matching their strategies with their moves in the market. The existence of many global competitors indicates that an industry is mature for international business operations. Global competitors operate on cost advantages over local competitors. The emergence of strong global competitors has helped in the development of market infrastructure for local companies, and also in the transfer of technological skills enabling domestic companies to explore the scope of expansion. Competitive efforts put pressure on companies to globalize their marketing activities to derive optimum performance by appropriately interpreting competitors' signals. When Kodak backed out from sponsoring the 1984 Los Angeles Olympics, Fuji Film took up the sponsorship offer immediately at the prescribed price and became one of the official sponsors of the Games. By the time Kodak reconsidered its participation in this global event, it was too late. However, in the Olympics of 1988 the ABC Television Group and Eastman Kodak become the official sponsors (Finnerty, 2000).

Thirdly, *cost drivers* are largely based on economies of scale that involve costs of production function factors in large and complex industries, costs of outsourcing, diffusion and adaptation of technology, tariffs and taxes, and costs associated with both basic and advanced marketing functions. The macroeconomic factors of neighboring countries also govern cost drivers. When a new automobile plant is set up, it aims to design, manufacture or assemble, and deliver a particular model by penetrating into neighboring markets to gain the advantages of economies of scale. The automobile plant of Toyota in Kentucky manufactures the Camry model to cater to the markets of the NAFTA group of countries. High market share multi-domestic companies derive gains from spreading their production activities across multiple product lines or diversified business lines to achieve advantage through economies of scale. The manufacturing and marketing activities of Proctor & Gamble, Unilever, and Colgate-Palmolive may illustrate this global attribute explained by cost drivers. Other cost drivers include global sourcing advantages towards low-cost global communications and automation processes. The location of strategic resources in relation to production plants, cost differences across the countries and transport costs are other important considerations of cost drivers.

Fourthly, *technology drivers* play a significant role in global business. Global expansion of multinational companies has been highly stimulated by the technological advancements in the design, manufacturing and marketing of consumer and industrial products. Services have also been improved by many technological breakthroughs. The internet revolution has triggered e-commerce as an open access channel as strong driving forces for the global business in the consumer and industry segments. Improved transport and communication now makes it possible to be in continuous contact with producers anywhere in the world. This makes it easier for companies to split production of a single good over any distance. Storage and preservation techniques have revolutionized the food industry, for example, so that the idea of seasonal vegetables is no longer relevant today as anything can be exported all year round from anywhere.

In addition, the Information Technology revolution has made the movement of investment capital around the globe an almost immediate process, ensuring that financing opportunities across the developed and developing world have both expanded and become more flexible. However, non-economic drivers of global integration, from travel to telephone traffic, have maintained their forward momentum making the world more integrated than ever before. Technological upgrading, in the form of introduction of new machinery and improvement of technological capabilities, provides a firm with the means to be successful in competition. In the process of introducing better technologies, new lower-cost methods become available, which allow the firm to increase labor productivity, that is, the efficiency with which it converts resources into value. Firms adopt these newer methods of production if they are more profitable than older ones. The ability of a firm to take advantage of technical progress is also enhanced if the firm improves its entrepreneurial and technological capabilities through two competitive strategies, namely (i) learning and adaptation, and (ii) innovation. The latter is a process of searching for, finding, developing, imitating, adapting, and adopting new products, new processes, and new organizational arrangements. Because rivals do not stand still, the firm's capacity to develop these capabilities, as well as its ability to compete, depends on the firm's maintaining a steady pace of innovation (Asian Development Bank, 2003).

Fifthly, *government drivers* for globalization include diplomatic trade relations, customs unions or common markets. Government drivers add favorable trade policies, foreign investment regulations, bilateral or regional trade treaties, and common market regulations. The introduction of global norms and standards, like ISO (International Organization for Standardization) certifications by governments, may be one of the effective measures to promote globalization through uniform quality perspectives. In the past the government barriers to foreign market entry protected domestic markets and made global marketing an uphill task. The World Trade Organization has been instrumental in promoting government drivers for improving trade in the developing countries.

Integrating a global strategy involves five key dimensions: selecting markets of global strategic importance; standardizing products; locating value-adding activities in a global network; using uniform marketing techniques; and integrating competitive moves across countries. Industry globalization drivers defined as the industry conditions that determine industry globalization potential and organization and management factors, largely determine the use of global strategy. Such drivers have the strongest influence in global trade. The application of global strategy in industries with high globalization potential improves business performance. Global companies constantly search for opportunities to achieve the benefits of globalization; to take a zero-based view of existing activities; to flout conventional wisdom and established practices; to systematically analyze industry, strategy, and organizational linkages; and to make multiple reinforcing changes in strategy and organization. They assume that strategy should be global but implemented locally (Yip and Johansson, 1994).

Besides the five drivers discussed above there are other reasons to market products and services globally. The major factors that influence the drivers of globalization may be illustrated as under:

- Market saturation
- Trade deficit
- Foreign competition
- Emergence of new markets
- Regional expansion of markets
- Opportunities via foreign aid programs
- Other reasons.

The most evident reason to drive companies into going global is the market potential in developing countries that act as major players in the world market. Companies such as Nintendo, Disney, and Japanese motorcycle industries (Honda, Kawasaki, Suzuki etc.) have been greatly benefitted by exploiting the markets of developing countries and supporting their growth in the world market to harness the potential of promising markets. The emerging scope of spatial diversification by utilizing additional production capacity at economies of scale and low-cost outsourcing is also one of the drivers for growth in enhancing global business. The thrust of the Japanese motorcycle industry in US markets is aided significantly by its low-cost product positioning. Saturation of demand for the products and services of a company in the domestic market may also be an effective driver to globalization wherein the company looks to build the value for its brand across boundaries. A product near the end of its lifecycle in the domestic market may be able to generate growth abroad. Dickson Poon's export of high brand value luxury goods from America to the Far East may be cited as an example of gaining advantage of the general rise in conspicuous consumption that is regarded as a sign of prosperity. Sometimes the cross-cultural attributes of overseas markets that become the source of new product ideation may also be considered as a potential driver for globalization of business and exploring strategic alliances with prominent regional or multinational brands thereof. Tested market entry approaches may be implemented in emerging markets such as South-East Asia, as shown by the Revlon in cosmetics, though there is the risk of international currency, legal issues, and business protocols. However, the most difficult task for global companies is to develop products with a universal appeal, as illustrated by Gillette with its fragrances. On the other hand, Lego is facing hardship in Far East markets to popularize its concept of do it yourself (DIY) for creative learning against the head-on competition of video games industries attracting the same segment of buyers (age group 5–14).

International market lifecycle

The lifecycle of international markets has only a forward dynamics, which moves from the initial stage of exporting and ending up in a loop while exploring new markets as competition intensifies in the destination country and pulls down the market share of the company. Exporting from a home market to a destination market works out initially as cost-effective for firms in the first stage (Entry) of a business move to the international destination. As the brand becomes established in the overseas market in the second stage (Growth) of their internationalization lifecycle, companies prefer to reduce their export costs to stay competitive in the destination markets, and firms start manufacturing process in the destination countries. This strategy prompts companies to explore mergers and acquisition options in the destination markets. The stages, associated factors, and strategies of the lifecycle of international markets are illustrated in Figure 1.4.

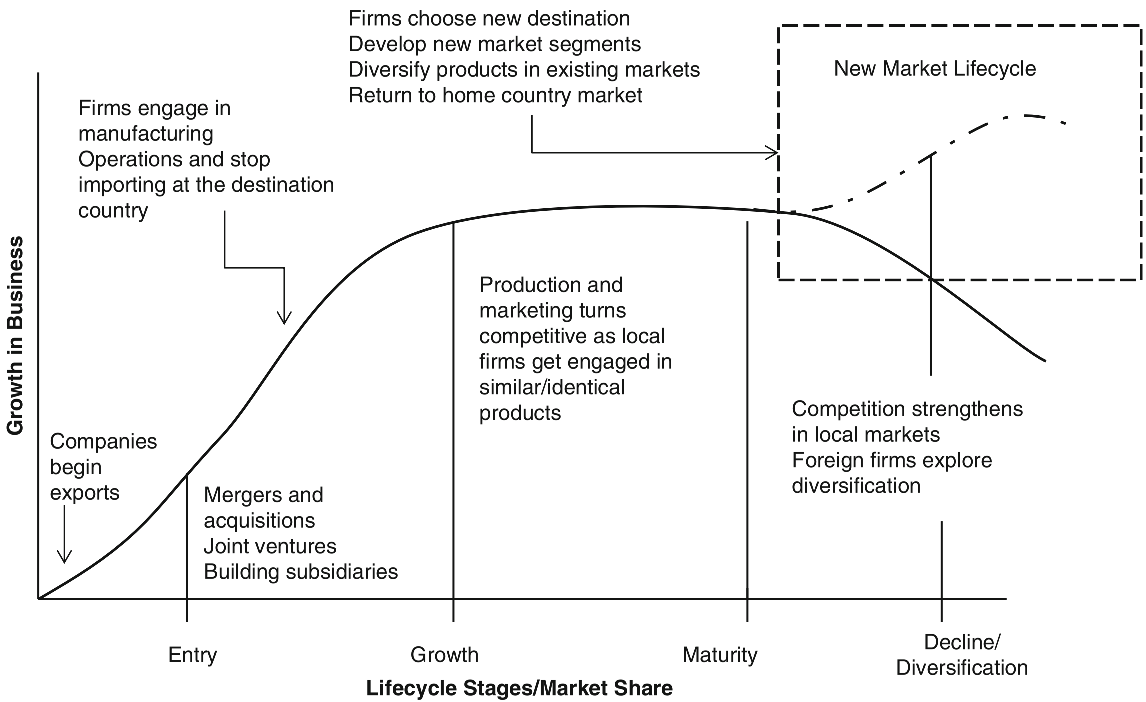

Figure 1.4 Stages of international market lifecycle and dynamics of marketing strategies

Most companies while exploring the opportunities for manufacturing products in destination markets look for optimizing the investment on manufacturing infrastructure by way of incurring expenditure on construction of own plant and installing machinery. Companies planning to manufacture in destination countries search for the production infrastructure of local companies that are engaged in manufacturing similar or identical products and analyze their plant utilization capacity. Accordingly, the foreign firms negotiate with local companies to share their manufacturing infrastructure to make use of their unused plan capacity. The companies leasing the manufacturing infrastructure pay the negotiated rent to the owners. This strategy is commonly known as *custom hiring*. Such practices are often found in developing countries where large public sector manufacturing infrastructures remain largely underutilized. For example, Cadbury India Ltd contracted the Central Arecanut and Cocoa Marketing and Processing Cooperative Ltd (CAMPCO), the Mangalore-based multi-state cooperative of Karnataka and Kerala states in India, to manufacture cocoa butter and cocoa powder at its chocolate factory at Puttur in Karnataka (India) during 2011–12. CAMPCO also manufactures chocolates for Nestlé, Perfetti, Indian Tobacco Company (ITC), Lotte Japan, and Britannia Industries Limited, India apart from selling its own chocolates (Business Standard, 2011). Some companies in the destination countries follow a consortium strategy by getting the products manufactured from local companies. In this process the principal company provides the product designs and controls the manufacturing process.

Traditionally, overseas companies have dominated the premium market segment in developing countries, while a large number of domestic companies have served the low end, often unprofitably. But since the economy of most developing countries in Asia has dramatically revived in the twentieth century, the local businesses have become stronger, empowered, and guided by government policies to stay competitive and sustainable. Market competition at local level and the enhanced buying power of consumers has become a concern for multinational companies to carry their business with relatively high mark-ups. Most foreign companies are facing this situation in India and China after the market reaches maturity stage. Unilever experienced such a situation in India for its detergent product categories against Nirma Limited, a local company that emerged in the 1970s in western India. Nirma successfully countered competition from Hindustan Unilever Limited and carved a niche for itself in the lower end of the detergents and toilet soap market. The Nirma brand name became almost synonymous with low-priced detergents and toilet soaps. However, the company realized that it would have to launch products for the upper end of the market to retain its middle-class consumers who would graduate to the upper end. The company launched toilet soaps for the premium segment in order to gain the desired market share.

A favorable response for home country products in destination markets offers companies the opportunities to develop a parallel market segment away from home and nurture both markets simultaneously. In managing the growth stage of international markets companies tend to deliver reliable-enough products at low-enough prices to attract a fast-growing cohort of mass market consumers in the destination countries. However, such practices are risk averse as the success of products of foreign companies in destination markets attracts local firms to emerge with identical or similar products at lower cost, and engage in disruptive innovation activities to outperform the foreign brands. However, multinational companies can strategically outwit domestic players by diversifying the product and services, and market segments, and stay unaffected from local players. The experiences of Colgate-Palmolive, General Motors, General Electrics, Huawei Technologies, Haier, and Ningbo Bird show how challenging it is to gain a market threshold in foreign destinations and engage in competition differentiation and diversification strategies continuously for global expansion (Gadiesh et al., 2007).

Globalization has prompted many sources of growth for firms operating in mature markets, which has stimulated them to launch unique, superior products with a compelling value proposition to gain competitive advantage. Few companies bring bold innovations to the market; most companies make improvements and modifications to existing products. Improvement in existing products and services is not an innovation; such change serves the firm only to maintain existing market share rather than growing its business. Innovations can be successful if the following strategies are meticulously adopted by firms (Cooper, 2012):

- Linking innovation strategy with development efforts by exploring opportunities in potential markets, as Apple managed its innovation of the i-phone and i-pad
- Nurturing the right workplace ambience and culture for innovation under the leadership of senior executives, as found at General Electric Company and 3M
- Setting up the conditions for seeding proactive ideas and carrying them out through a system of innovation evolution, as Swarovski

and Swatch built their market through continuous efforts on innovation and branding
- Stepping into the idea-launch process and managing the large and complex processes of driving an innovation to market.

It is necessary for firms to adopt an appropriate project selection method to cater to an innovation requirement. Thinking of an innovation is easy, but making it work is a challenging task. A cost-effective innovation in the consumer products sector nay slowly gain popularity in developing countries and BRIC (Brazil, Russia, India and China) emerging markets where entrepreneurs face global challenges amid a paucity of resources but with high market potentials. Such innovations offer low-cost solutions but exhibit the attributes of being robust, consumer-friendly and with high sales potential in the large and bottom-of-the-pyramid market segments. Such innovations are developed locally and are positioned initially in a niche. Scaling low-cost innovations gives rise to various financial and managerial challenges. However, once such innovations are successful in large-scale operations they could pose major threats to the established commercial brands of a multinational company as a disruptive innovation. Bringing local innovations to commercial scale is subject to successfully managing various operational factors including cost, active demand, developing a sustainable business model, diffusion of innovation, social networking, and demonstrating use value, effective entrepreneurial leadership, and managing corporate reputation (Soman et al., 2012).

For many companies, developing innovative products does not occur as a chance or coincidence but through careful attention to many important criteria. Firms should analyze their innovation practices and capabilities to become more effective in driving innovation as a breakthrough and gain competitive advantage. The contribution of employees towards innovation in products, services or strategy signifies the value and quality of the innovation portfolio of an organization and projects the innovation effectiveness curve of the company (Kandybin, 2009). Firms may be involved in the innovation process by routinely understanding various perspectives in generating and managing innovative ideas. Firms need to understand the issues concerning the following tools to carry out the innovation process:

- Ideas come from anywhere. Everyone in the organization needs to be alert to catch and process them
- It is necessary to stay democratic while churning ideas and developing innovative concepts

- Brainstorming is the right way to steer innovative ideas and filter them through the measures of economic viability and technological feasibility in order to take the innovation process to the next level
- One idea at a time is an ideal proposition to handle the innovation process analysis
- Listening actively to others to analyze their standpoints and insights is an essential requirement for innovation managers. This would also help in borrowing insights and building concepts on social debates
- Innovation activists in an organization should be open to criticism. They can further analyze constructive criticism and discard carefully any destructive comments
- Innovation is a spontaneous impetus and voluntary effort. So organizations should refrain from making any sanctions on employees involved in innovation process, if not successful
- Initiatives in the innovation process should be driven with strong organizational leadership, and employees should develop a sense of belongingness in carrying out such innovation
- There is an immense need to maintain the information base during the innovation process as innovation of products or services is an evidence-based approach and largely data-driven
- The new phenomenon of product innovation is co-creation, which requires subject matter experts and customers to be involved and stay abreast during the process
- Carrying innovation though diverse groups is a boon as well a risk that might lead to cognitive conflicts.

Breakthrough innovations in markets are a continuous process, which is backed by the distribution, retailing, and services industry. Innovations leading to commercial breakthroughs demonstrate a highly skewed distribution of the use value of inventions, in which some are useless, a few are of moderate value, and a rare one that qualifies as a breakthrough. It is necessary for firms to account for the total number of inventions the company generates, the average score of the mean value of those inventions, and the number of successful breakthrough inventions. Such corporate awareness may help in developing a strategic balance between individual innovation workers and teams. Greater team diversity stimulates in generating higher involvement in working with breakthrough innovations. Thus it is a first and foremost requirement for the companies to introspect within the organization and identify how they want to improve their innovation process, take appropriate measures to drive the innovative products and services as breakthrough, and contrary to that address any deficiencies in the process. Such dynamism in the innovation process would allow companies to improve their competencies and capabilities to innovate in ways that make the best sense for the organization and market (Fleming, 2007).

In view of fast-growing market competition more and more companies are recognizing innovation as business opportunities that a focus on sustainability creates. Such a shift in thinking in many companies and industries, where learning-organization principles are being applied to create sustainable business models, has evidenced change in organizational culture and improvement in core competencies. Simultaneously, they become inspirational, energetic places to work, where even relationships with customers and suppliers improve. However, a more integrated view will enable companies to innovate for long-term profitability and sustainability. There are three core competencies that learning organizations must master to profit from sustainability, including encouraging systemic thinking, convening strategic market players and customers towards changing conventional thinking, and taking the lead in reshaping economic, political, and societal forces that stifle change (Senge and Carstedt, 2001).

Firms entering into market competition need to develop competence in building strategic integration of the innovation process, which involves the task of exploring and creating new initiatives and testing them with consumer and market preferences. Such innovation integration can be performed by combining resources from multiple units within the firm, each with distinctive attributes of the innovation and market focus to build corporate strategy in new directions. Only a few multinational firms have developed the competence of strategic integration, but the challenges and imperatives for all companies are the same. Firms should develop competencies in integrating innovation process considering the following perspectives:

- Reinforcing the core business strategies for innovative products
- Redirecting innovation to new consumer segments
- Sharing and transferring of resources to support the innovation process and strengthening related business strategies to meet new competitive challenges in the marketplace.

Above all, company leaders have to create a corporate context that facilitates the innovation integration process as an ongoing institutionalized process emphasizing the development of appropriate organizational structures, control systems, and performance-linked incentives (Burgelman and Doz, 2001).

In growing competitive markets large and reputed firms are developing strategies to move into the provision of innovative combinations of products and services as 'high-value integrated solutions' tailored to each customer's needs rather than simply 'moving downstream' into services. Such firms are developing innovative combinations of service capabilities such as operations, business consultancy, and finance required to provide complete solutions for each customer's needs in order to augment customer value (Rajagopal, 2007). Market-driving behavior for innovations is different from a firm's market orientation, which emphasizes the competitive dynamics among firms conducting identical business, as in automobile sales. It is argued that the firm's market orientation on innovation-led products interacts with other strategic orientations, in the process determining how they are manifested and implemented. Furthermore, market orientation plays a critical role in determining transitions among various strategic orientations over time among firms engaged in an identical business of products and services. Having a strong market-oriented strategy alleviates the possibility of competitors using coercive influence strategies and offers advantages to customers over competitive market forces (Chung et al., 2007).

2

International Finance

Conducting business in global markets has become much easier for companies since the mid-twentieth century because of simple and secured management of financial resources. Regional and global financial markets turned vulnerable after the Second World War due to domestic inflation, declining exports, unstable foreign exchange rates, low purchasing power parity of countries, and increasing commercial rates of interest. This chapter addresses the role of international financial organizations in managing balance of payments and balance of trade paradoxes, and explains how to develop crucial strategies to protect the financial interest of companies during market uncertainties by using financial and arbitrage strategies. This strategy framework helps managers to tailor financial portfolios, options, and equity management strategies. The chapter offers a discipline for thinking rigorously and systematically about managing financial strategies during market uncertainties.

There were innumerable turbulences in the world economy and business growth during the twentieth century, with both internal and external structural adjustments to regulate financial inflows and outflows between countries. In addition to the First and Second World Wars, the great depression of 1930s steered political and economic thinkers to arrive at a business-linked economic growth philosophy and build an international organization for surveillance of monetary and economic imbalances. Several countries around the world faced three economic contractions in 1920, 1923, and 1926 that lasted together for over fifteen months. In November 1930, another series of crises emerged among commercial banks that turned a sporadic economic recession into the Great Depression. This recessionary situation had a prolonged effect on the trade and economy of several countries, which was further prompted by the Second World War from 1939 to 1945. The post-war effects hobbled the economy of most countries and destroyed international market operations.

One of the causes of economic recession was the process of check collection as part of banks' cash reserves. 'Floating' checks were counted twice in banks' reserves, once when the check was deposited and then as the check was drawn. Bankers at the time referred to the floating reserves as fictitious reserves. The quantity of fictitious reserves rose throughout the 1920s and peaked just before the financial crisis in 1930. This meant that the banking system as a whole had less cash (or real) reserves available in emergencies (Richardson, 2007). The crisis also generated economic deflation due to the decrease in government, personal or investment spending. This situation resulted in decreased consumption and demand in the economy, which caused a decline in industrial production and exports, and an increase in unemployment. As economic deflation intensified across countries, bankers tended to accumulate reserves and the public hoarded cash, blocking the free movements of funds in the society (Friedman and Schwartz, 1964). Hoarding reduced the proportion of the monetary base deposited in banks.

The International Monetary Fund

During the great depression most countries attempted to shore up their failing economies by sharply raising barriers to foreign trade, devaluing their currencies to compete against each other for export markets, and curtailing the freedom of people to hold foreign exchange. These attempts proved to be self-defeating and made the situation of international trade and finance worse. Consequently, world trade declined sharply and employment and living standards plunged steeply in many countries. This situation in the mid-1940s threatened international monetary cooperation and induced political experts and economists to think of creating a sustainable international organization to protect member countries from such economic shocks. The International Monetary Fund (IMF) emerged in 1944 as result of the above-discussed failures in economic systems with the objective of regulating the system of exchange rates and international payments that enables countries and their citizens to buy goods and services from each other. The IMF was thus constituted as an international surveillance entity to ensure exchange rate stability and encourage member countries to eliminate exchange restrictions that hindered trade in the post-Second World War period.

Accordingly, the IMF was formed in July 1944 with the representatives of 45 countries who met in the town of Bretton Woods, New Hampshire, in the northeastern United States. They agreed on developing a framework for international economic cooperation to keep watch on the economic situations of member countries and help in their continuous improvement in trade and economy. Developing an international organization was necessary to ensure financial stability and to avoid a repetition of the economic catastrophe. The IMF came into formal existence in December 1945 upon signing the Articles of Agreement, first by 29 member countries, a number that rose to 188 countries by the end of 2014. IMF membership began to expand in the late 1950s and the 1960s as many African countries became independent and applied for membership. The IMF began operations on March 1, 1947. Later that year, France became the first country to borrow funds from this organization.

The countries that joined the IMF between 1945 and 1971 agreed to keep their exchange rates and the value of their currencies in terms of the US dollar (however, in case of the United States, the value of the dollar was in terms of gold), pegged at rates that could be adjusted only to correct a 'fundamental disequilibrium' in the balance of payments. This par value system is also known as the Bretton Woods system, which prevailed until 1971, when the US government suspended the convertibility of the dollar into gold. However, dollar reserves are still held by governments of other countries instead of depending on the international gold standard. By the early 1960s, the US dollar's fixed value against gold, under the Bretton Woods system of fixed exchange rates, was seen as overvalued. The system dissolved between 1968 and 1973. Since the collapse of the Bretton Woods system, IMF members have been free to choose any form of exchange arrangement they wish except for pegging their currency to gold. Many feared that the collapse of the Bretton Woods system would bring the period of rapid global growth to an end. In fact, the transition to floating exchange rates was relatively smooth, and it was certainly timely: flexible exchange rates made it easier for economies to adjust to more expensive oil, when the oil price suddenly started going up in October 1973. The IMF began to respond to the balance of payments difficulties confronting the economies of developing countries by providing concessional financing through its Trust Fund. The chronological growth of the challenges and tasks of IMF are shown in Figure 2.1.

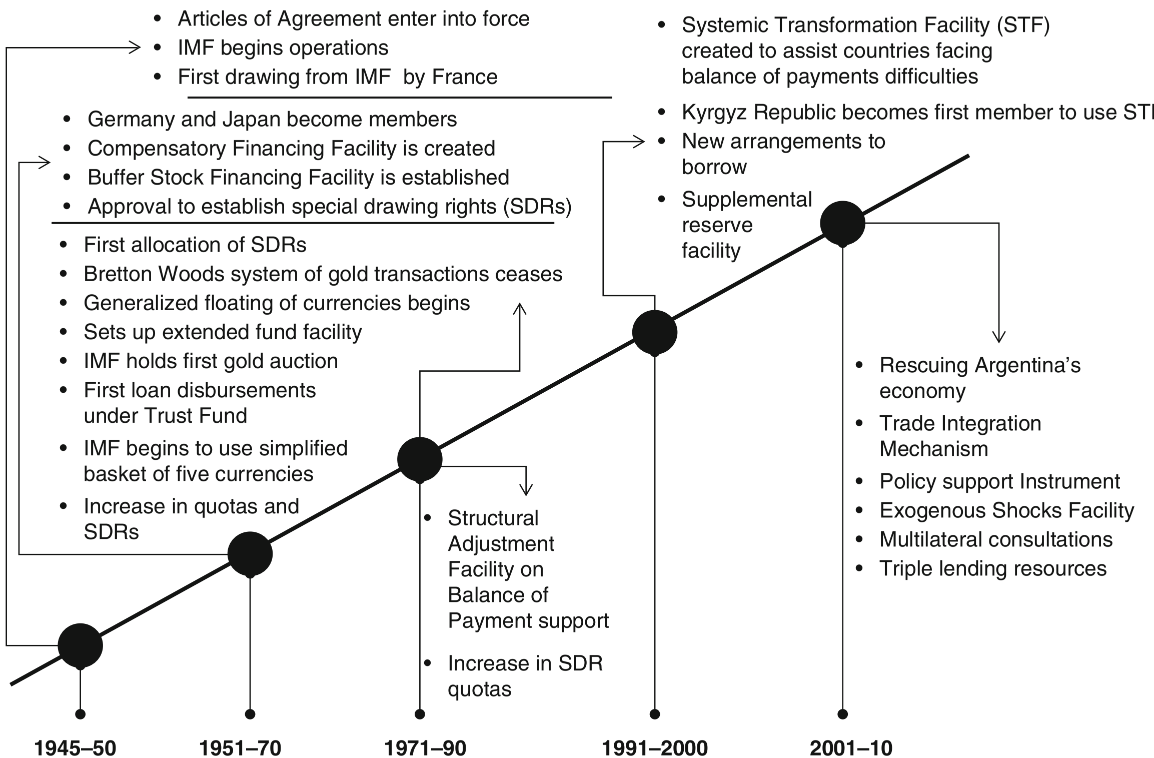

Figure 2.1 Chronological moves towards regulating international finance management by the International Monetary Fund

After the IMF was formed in 1945, the Articles of Agreement was brought into force upon signing by 29 governments, representing 80 percent of original quotas and the organization became operational in 1947 as illustrated in Figure 2.1. As noted, France was the first country to seek monetary support from the IMF. In order to facilitate circumstantial borrowings for member countries, the Fund soon developed Agreements to Borrow, which were modified during the 1990s into New Agreements to Borrow (NAB). The NAB is a set of credit arrangements between the IMF and member countries and institutions, used in critical circumstances to supplement its quota resources for lending resources to member countries. Special Drawing Rights (SDR) were created by the IMF in 1969 to support the Bretton Woods Agreement as a fixed exchange rate system. A country participating in this system needed official reserves to purchase domestic currency in foreign exchange markets by selling its holdings of gold. However, with the collapse of gold standards in determining the foreign exchange rate in 1971, generalized floating began as European Community countries introduced a joint float for their currencies against the US dollar. In 1986 the IMF established a Structural Adjustment Facility (SAF) to provide balance of payments assistance on concessional terms to low-income developing countries. A decade later the IMF announced the first of its proposed multilateral consultations on issues of systemic or regional importance that would focus on global imbalances, with the participation of China, European countries, Japan, Saudi Arabia, and the United States (International Monetary Fund, 2014).

Some inflationary and contracting side effects were perpetuated in the institutional reforms strategy in the fiscal and monetary sector of member countries. A core responsibility of the IMF is to provide loans to countries experiencing balance-of-payments problems. This financial assistance enables countries to rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth. Unlike development banks, the IMF does not lend for specific projects. The volume of loans provided by the IMF has fluctuated significantly over time. The oil shock of the 1970s and the debt crisis of the 1980s were both followed by a sharp increase in IMF lending. In the 1990s, the transition process in Central and Eastern Europe and the crises in emerging market economies led to further surges in the demand for IMF resources.

Non-subsidized loans are provided by IMF through four main facilities: Stand-By Arrangements (SBA), the Extended Fund Facility (EFF), the Supplemental Reserve Facility (SRF), and the Compensatory Financing

Facility (CFF). The IMF also provides emergency assistance to support recovery from natural disasters and armed conflicts, in some cases at subsidized interest rates. The Fund created Special Drawing Rights (SDR) in 1969 as the resources providing short-term benefits to countries were not adequate. The SDR has been analogized as paper gold as the SDR was designed to provide additional liquidity to support the growing global trade requirements. The SDR is an international reserve asset for supplementing the existing official reserves of member countries. These drawing rights are allocated to member countries in proportion to their IMF quotas (Rajagopal, 2007).

The Bretton Woods negotiations aimed at preventing the mistakes made by countries in the past and setting new goals for economic prosperity on the following lines:

- Each country should exercise its liberty of developing and implementing macroeconomic policies to achieve full employment
- Free-floating exchange rates should be abandoned in view of their repercussions observed during the great depression
- A stronger monetary system should be evolved to recognize the exchange rates of both national and international concerns.

The IMF is responsible for ensuring the stability of the international monetary and financial system by regulating the international payments and exchange rates among member countries to enable them to trade financial instruments in international markets. The Fund seeks to promote economic stability and prevent crises; to help resolve crises when they do occur; and to promote growth and alleviate poverty. It performs three main functions of surveillance, technical assistance, and lending in order to meet these objectives. Surveillance is the regular dialogue between the Fund and its members to offer policy advice. Generally once a year, the IMF conducts in-depth appraisals of each member country's economic situation. It discusses with the country's authorities the policies that are most conducive to a growing and prosperous economy and stable exchange rates. Contemporarily, surveillance covers a wide range of economic policies, although the emphasis given to each policy area varies according to a country's individual circumstances. The surveillance agenda of the IMF specifically includes the exchange rate, monetary and fiscal policies of member countries, structural policies in developing countries primarily oriented towards economic growth, and debt management. The macro issues of the agenda constitute international trade, the labor market, assessment of risk and crisis management, and reforms in power structures. Following a series of banking crises in both the industrial and developing countries, the surveillance function of IMF has included financial and trade sector issues. In the wake of financial crises and in the context of member countries undergoing transition from a planned to a market economy, institutional issues concerning the independence of the central bank, financial sector regulation, corporate governance, and policy transparency and accountability have also become increasingly important to the global watch agenda of the Fund.

Despite the gradual improvement in the domestic economies of many countries after the Second World War, most countries continued to face a perennial challenge in achieving financial stability, economic growth, and higher living standards. The IMF has observed over the period that there are many different paths to achieve these objectives, which are different in each country, given the distinctive nature of national economies and political systems. These challenges can be met by the IMF through regulating foreign direct investments, diffusion of technology, building strong institutions, effective macroeconomic policies, building skilled manpower, and managing a less turbulent market economy. However, in this process a common denominator, which appears to link nearly all high-growth countries together, formed new-generation trade and economy alliances leading to globalization. Historically, globalization is driven by innovation and technological progress to drive competitive differentiation and advantages for consumers. This refers to the cross-border integration of economies around the world through the movement of goods, services, and capital for mutual economic gains. In the globalization process there are also broader cultural, political, and environmental dimensions that correlate with economic growth through the outreach of international trade.

To take one example, during the 1980s Argentina had little or no access to international capital markets following the debt crisis sparked in 1982 by the default on external debt declared unilaterally by its government. Consequently, the Argentine government was forced to finance its deficits through monetary creation by the central bank, which led to several episodes of inflationary surges. In response to the inflationary pressures in the system, the government undertook several stabilization plans, including the Austral Plan in 1985 and Plan Primavera in 1987. Among other measures, the Austral price stabilization plan attempted to sterilize part of the monetary outflow by increasing the reserve requirements and paying competitive interest rates on them (Basu et al., 2004). This gave banks an incentive to collect deposits on a larger scale. Plan Primavera required that all reserve requirements for different kinds of deposits be substituted by two special government obligations remunerated at the average deposit rate of commercial banks plus a 0.5 percent monthly premium. This measure enabled banks to offer higher interest rates to attract depositors. Although these sterilization measures gave commercial banks an incentive to collect and retain deposits by expanding their scope of operation, the increase in deposit intermediation was short-lived (Fernando, 1990).

The inability of the government to undertake rigorous fiscal reforms, together with interim sterilization actions to curb the inflationary process, soon generated large fiscal obligations and quasi-fiscal costs that brought the Argentine government to the brink of insolvency. When attempts to place fixed-income instruments in the market only resulted in bank runs and the declaration of a bank holiday, the Argentine government announced in January 1990 its 'Bonex Plan' to address the government's insolvency problem. This required the rescheduling of all domestic currency-denominated bank certificates of deposits (CDs), excluding only savings accounts, sight deposits, and domestic public debt. Public debt instruments (mainly held by banks) and term deposits were replaced by ten-year dollar-denominated bonds (BONEX) that would make semi-annual interest payments and had a two-year grace period. In a few days, the emergency bank holiday was lifted, and financial markets reopened. However, the rescheduling caused depositors huge losses as they retained only the secondary market-traded value of BONEX holdings in lieu of their deposits. The government thus managed to avert a public sector and banking sector meltdown by expropriating deposits and defaulting on domestic debt, that is, forcing depositors to bail it and the banking system out (International Monetary Fund, 2002).

The Argentine economy subsequently entered a period of hyperinflation. The real value of deposits plummeted to a historic low by the second quarter of 1990 and remained well below the previous ten-year levels until the introduction of the Convertibility Plan in March 1991. This plan established a currency board to fix the exchange rate at one to one with the US dollar, deregulated domestic markets, liberalized trade, and began to privatize public services. The subsequent stabilization, together with changes in the Financial Intermediation Law that abolished the old deposit insurance system and established new rules for the closure and liquidation of financial institutions, attracted capital inflows and contributed to a marked recovery in financial intermediation. The ratio of broad money to GDP, which had declined from

25 percent of GDP in 1980 to less than 6 percent in 1990, rose to 20 percent by late 1994. Triggered by the onset of the Mexican financial crisis (Tequila crisis), however, bank runs and capital flight erupted again in Argentina. Deposits fell by about 18 percent between November 1994 and March 1995, accompanied by shifts in deposits out of small banks into large banks and out of domestic into foreign banks (Huw, 2002). The government adopted measures to support liquidity and restructure banks, but they met with only partial success. The signing of the new IMF-supported program and other associated efforts also helped to restore confidence.

Exchange rate stability and financial integration

Exchange rates are volatile and can lead to sizeable losses in business. The foreign exchange rate measures the price of one currency in terms of another. A convertible currency can legally be exchanged for another convertible currency at a given rate of exchange. A currency is partially convertible when it can be legally used to purchase foreign exchange to finance only certain transactions. An increase in the exchange rate of a country may be expressed as a depreciation of the value of US dollars to buy one unit of the other currency. During the era of gold exchange standards the exchange rates between the currencies were determined by the ratio of weights of gold defining the currencies.

Exchange rates are divided into two categories – the spot exchange rate and the forward exchange rate. Spot exchange rates are quoted for delivery of the currency purchased within a period of two days, while forward exchange rate quotations are for prices agreed today that hold for delivery at a future date from one to three months ahead. These quotations are usually made by commercial banks, and other customized maturities may be negotiated. Foreign currencies are bought at the spot rate for many reasons, which include finance for imports and buying foreign assets such as bonds and real estate. Most users of the forward market engage in swap transactions, in which the same currency is bought and sold simultaneously but is delivered at two different points of time.

Swift movements in exchange rates occur with changes in international economic and diplomatic relations between countries. Change in the expectations of market participants also affect exchange rates. In the long run interaction among currencies is shaped by political and economic conditions. For example, the longstanding stability in political and economic systems over decades in Germany and USA makes their currencies safe. On the other hand, the currencies of Brazil, Israel, and

Mexico lost purchasing power as they faced hyperinflation in the recent past (Rajagopal, 2007).

How can the strength of a currency be determined to know whether it is fundamentally undervalued or overvalued? This question lies at the core of international economics and in many trade disputes. Most people usually go with the nominal exchange rate, which is the price of one currency in terms of another. It is commonly expressed as the domestic price of the foreign currency. However, firms doing international business need to compare the value of currency by analyzing the foreign exchange rates grid. They seek to measure the value of goods of a country against those of another country or a group of countries at the prevailing exchange rate.

The initial agreement of the IMF with member countries is to regulate the foreign exchange rate by ± 1 percent across the currencies of different countries. In addition to exchange rate regulation the IMF has also enhanced its objectives in the following areas to provide support to member countries:

- Initial agreement to allow the foreign exchange variation up to 1 percent of par value
- International monetary cooperation for expansion of trade, employment, and economic order of member countries
- Protect member countries from long-term balance of payments disequilibria.

The exchange rate is central to international trade and the global economy, and market movements are largely governed by real exchange rates that are potentially capable of delivering results of business growth to the destination country. Hence, the prime challenge of international financial institutions is to work out political and economic indicators that help in stabilizing exchange rates. A fixed or pegged rate is a rate the government (central or federal bank) sets and maintains. A set price is determined against a major world currency (usually the US dollar, but also other major currencies such as the euro, the yen, or a basket of currencies). In order to maintain the local exchange rate, the central bank buys and sells its own currency on the foreign exchange market in return for the currency to which it is pegged. Unlike the fixed rate, a floating exchange rate is determined by the private market through supply and demand. A floating rate is often termed 'self-correcting' as any differences in supply and demand will automatically be corrected in the market.

Financial integration in regional and global markets has prompted reforms in monetary policy frameworks and governance of financial channels in the emerging markets from the mid-twentieth century. Political and international forces have driven financial governance to assimilate with neighboring, regional, and global economies to develop common indicators for measuring financial results and validate financial operations. Forms of financial integration include sharing of information and best practices among financial institutions, and sharing technologies through licensing among financial institutions to help firms borrow and raise funds directly in international capital markets to support existing and upcoming businesses. Among all financial indictors the exchange rate is decisive in determining indicators for investors that encourage direct investment in international capital markets. International financial integration itself also encourages capital flows across primary equity markets, and foreign participation in domestic financial markets. The exchange rate is an important channel for the transmission of external factors in monetary policy (Reinhart and Rogoff, 2004). The financial environment in the post-economic recession experienced by most countries during 2007–12 escalated inflation and currency appreciation in many emerging markets, leading to a complex challenge between price stability and exchange rate stability among both developed countries and emerging markets. The causes and effects of exchange rate volatility are shown in Figure 2.2.

Fluctuations in the foreign exchange market are caused by macroeconomic factors, conditions of balance of payments, and the balance of trade of a country as illustrated in the figure. Besides macroeconomic factors in the destination country, international diplomacy and the behavior of financial markets also lead to volatility in exchange rates. Inflation rises in a country through price escalations, increases in interest rates and higher circulation of money in the society. Countries with a consistently low inflation rate exhibit a rising currency value as their purchasing power is high relative to other currencies. During the mid-twentieth century Japan, Germany, and Switzerland had a low rate of inflation while the US and Canada could bring down inflation during the 1990s. Control of inflation helped these countries to stabilize the foreign exchange rate for a lengthy period.

Interest rates, inflation, and exchange rates are highly correlated. There are two types of interest rates that prevail in an economy – an interest rate for lending and one for investments. In general when the lending interest rates are lowered, more people are able to borrow more money. Consequently, consumers have more money to

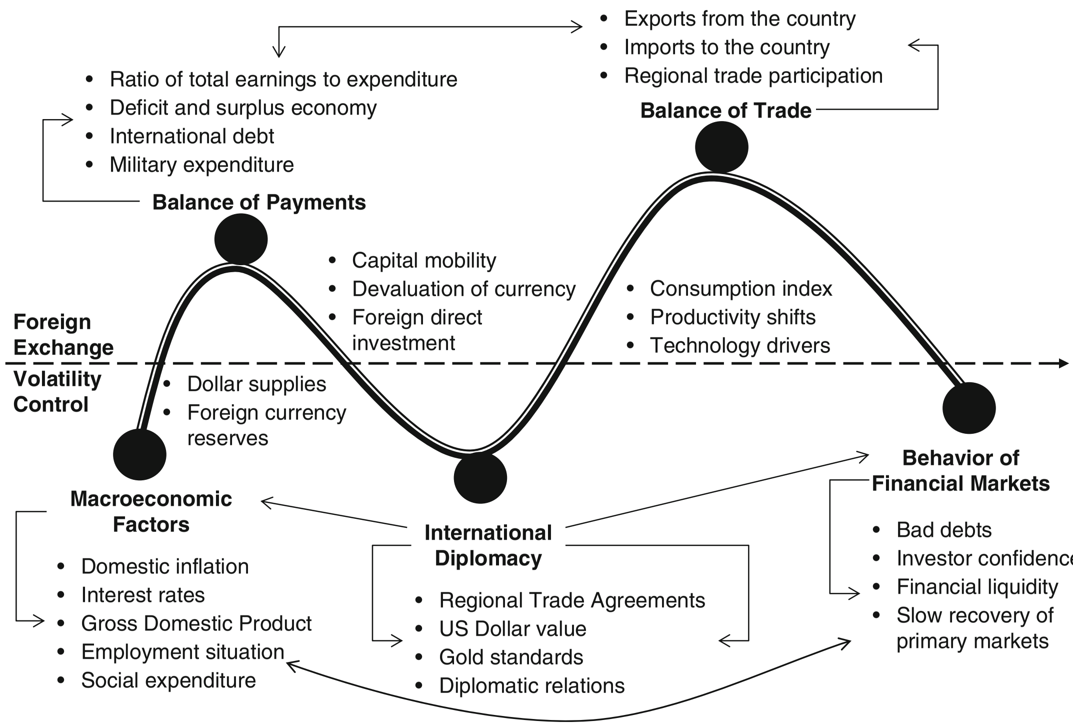

Figure 2.2 Factors driving exchange rate volatility

spend, resulting in the growth of the economy as well as an increase in inflation. By manipulating interest rates central banks attempt to influence both inflation and exchange rates. Higher interest rates on investments attract foreign capital and cause the exchange rate to rise. Besides interest rates, social expenditure in the six least-return areas, namely, government expenditure on public health, education, housing, public infrastructure, social security, and the military, also inflate the economy of the country and disrupt the stability of the foreign currency exchange rate. Disequilibrium in balance of payments, which is the sum of total income and expenditure in a country leading to either surplus or deficit in the economy, significantly affects the volatility of foreign currency exchange rates. Developing countries with high international debt, high social expenditure, low exports, high imports, and low foreign investment often suffer from the instability of foreign exchange rates. A low exports scenario in a country often contributes to economic disequilibrium as it increases the expenditure on imports and reduces the overall income of the country. International diplomacy promoting international trade by means of regional trade agreements or by revaluating lead currency values (appreciation or depreciation) has a global impact on foreign currency exchange rates. The extent of bad debts due to willful or circumstantial defaults in repayments causes liquidity crunch in financial institutions. This in turn lowers investor confidence, resulting in decline in investments, rise in the inflation of a country, and fluctuations in foreign currency exchange rates. Companies intending to establish their production and business operations in destination countries should evaluate the causes and effects associated with foreign currency exchange rates and act accordingly.

Variability in the foreign exchange rate significantly affects the trade and economy of a country. Both foreign and domestic market structures are woven around the exchange rates, which largely govern corporate decisions on exports, imports, and investments. Exchange rates trends in destination countries also determine a company's operating efficiency and sustainability in the market. However, managers have developed strategies to manage foreign exchange exposure in new ways by considering the location of manufacturing units as flexible to adjust the company's financial commitments according to exchange rate movements. A company can also shift sources of raw materials, subassemblies, and components to other destinations by adopting production-sharing strategies that ensure stability of exchange rates. Above all, globalization has leveraged most multinational companies to assume alternate strategies, if exchange rate changes affect operating performance to pull down the competitive advantages in the destination market (Lessard and Lightstone, 1986).

In an international business the process of buying or selling foreign exchange on a spot or forward basis is carried out on contract with an international bank. The bank charges the firm the prevailing wholesale rate for the currency, plus a small premium for its services. Because of its extensive involvement in the foreign exchange market, the bank is typically willing and able to customize a spot, forward, or swap contract to meet the customer's specific needs. Foreign exchange markets have developed other mechanisms such as currency trading options to enable companies to obtain foreign exchange. A currency future is a contract similar to a forward contract on many exchanges worldwide. However, unlike a forward contract, a currency future is for a standard amount on a standard delivery date. In the case of a currency future and options, a firm must complete the transaction in order to obtain the specified amount of foreign currency at the specified price and time. This obligation is usually not troublesome; however, a firm willing to be released from a currency future obligation can simply make an offsetting transaction. In practice, large amounts of currency futures are settled in this manner. However, currency futures represent around 1 percent of the foreign exchange market. Alternatively, a currency option does not require a firm to buy or sell a specified amount of a foreign currency at a specified price at any time. A call option grants the right to buy the foreign currency while a put option grants the right to sell the foreign currency. Currency options are publicly traded in all the recognized exchanges worldwide. Foreign currency options not only provide a fixed exchange rate for a future date if rates move adversely, but also offer the added flexibility of being able to use the prevailing spot rate if rates have moved favorably.

Forward market currency options and currency futures facilitate international trade and investment by allowing firms to hedge, or reduce the foreign exchange risks inherent in international transactions. The forward price of a foreign currency often differs from its spot price. If the forward price (using a direct quote) is less than the spot price, the currency is selling at a forward discount, and in case the forward price is higher than the spot price, the currency is selling at a forward premium. The forward price represents the aggregate prediction of the spot price of the exchange rate in future in the marketplace (Antle and Ensor, 1982). Thus, the forward price helps international businesspeople forecast future changes in exchange rates. These variations can affect the price of imported components as well as the competitiveness and profitability of the exports of a company. If a currency is selling at a forward discount, the foreign exchange market believes the currency will depreciate over time. Firms may want to reduce their holdings of assets or increase their liabilities denominated in such a currency. The currencies of countries suffering balance of payment (BoP) deficits or high inflation rates often sell at a forward discount. On the other hand, if a currency is selling at a forward premium, the foreign exchange market assumes that the currency will appreciate over time. Firms may want to increase their holdings of assets and reduce their liabilities denominated in such a currency. The currencies of countries enjoying BoP surpluses generated by trade or low inflation rates often sell at a forward premium. Thus the difference between the spot and forward prices of a country's currency often signals the expectations of a market regarding the macroeconomic policies and prospects of the country.

The balance of payments is a record of one country's trade dealings with the rest of the world. This is an indicator of the international economic health of a country. This data helps government policy makers plan monetary, fiscal, foreign exchange, and commercial policies. The balance of payments of a country summarizes all the transactions that have taken place between its residents and foreigners in a given period, usually a year. The word 'transaction' refers to exports and imports of goods and services, lending and borrowing of funds, remittances, and government aid and military expenditures. Such data can also provide information for decisions in international marketing. Two important decisions a firm has to make are the choice of location of supply for foreign markets and the selection of markets to sell to. Balance-of-payments analysis indicates which nations are strong importers and exporters of the products in the international arena. A multinational company can accordingly identify its own best import and export targets and buying/selling processes. The balance of payments reflects the totality of a country's economic relations with the rest of the world – its trade in goods, its exchange of services, its purchase and sale of financial assets, and important governmental transactions, such as foreign aid, military expenditures abroad, and the repatriation of funds.

Certain forces determine the volume of these transactions, how they are brought into balance, what problems arise when they fail to balance, and what policies are available to deal with those problems. Longitudinal analysis of the balance of payments can help to track the international product lifecycle. When a firm is considering foreign market opportunities, it finds a country's import statistics for its products to be a preliminary indicator of market potential. The balance-of-payments record is made on the basis of rules of debit and credit, similar to those in business accounting. For example, receipts are entered as credits and payments as debits. Thus, exports, like sales, are entered as credits; imports, like purchases, as debits. Dealings that result in money entering the country are credit (plus) items while transactions that lead to money leaving the country are debit (minus) items. The balance of payments can be split up into two sections:

- The current account, which deals with international trade in goods and services
- Transactions in assets and liabilities, which deals with overseas flows of money from international investments and loans

All transactions affecting increases in assets, like direct investment abroad, or decreases in indebtedness, like the repayment of external debts, are recorded as credits. However, decreases in assets, like liquidation of foreign securities, and increases in liabilities, like borrowing abroad, are treated as debits. Adding the balance of trade and balance on invisibles together gives the balance on the current account. A deficit on the current account means that more goods and services have been imported into the domestic country than have been sold abroad. A surplus on the current account means more goods and services have been exported than imported. The transactions in assets and liabilities section of the balance of payments show all movements of money in and out of the country for investment. This may be direct investment – investment in productive capacity, or portfolio investment – investment in shares or other assets. These flows will be debits to the balance of payments of the country.

Conceptually the balance of payments should always balance because of official financing. However, a balance of payments deficit means a persistent and large negative balance for official financing. This can be the result of excessive purchases of foreign goods and services or excessive investment overseas. In the short term, a balance of payments deficit can be corrected by:

- Continued borrowing of foreign currency
- Increasing interest rates to attract overseas investors
- Imposing exchange controls
- Imposing tariffs and import quotas.

However, in the long run, the government can correct a balance of payments deficit by reducing demand in the economy for all goods including imports. Conversely, a reduction in interest rates or restrictive exchange controls will correct the surplus.

International investments

Multinational enterprises are an important part of the international economy. Through international direct investment, they bring substantial benefits to home and host countries in the form of productive capital, managerial and technological know-how, job creation, and tax revenues. The investment objectives of a multinational company should reflect the following issues:

- Ensure that the operations of enterprises are in harmony with government policies
- Strengthen the basis of mutual confidence between enterprises and the societies in which they operate
- Improve the foreign investment climate
- Enhance contribution of the enterprise to sustainable development.

An investment proposal is a type of abridged business plan designed specifically to meet the information needs of potential investors. It focuses on the management, marketing, and financial aspects of the company that would make it an attractive investment. There are two stages of an investment proposal – selling of the proposal and its review. The process of selling and reviewing should go through a variety of formal and informal procedural follow-ups and negotiations. Successful international companies continue to be interested in growth prospects, evaluating a variety of proposals from different sources that could potentially lead to investments abroad. These sources include company employees, unknown host country firms, licensees, distributors, and joint venture partners.

Most companies aim at going global and choose to invest extensively through joint ventures, subsidiaries, or making foreign direct investments in potential destinations. The objective of corporate venturing is to gain competitive advantage by responding quickly to changes in markets and managing local threats. Customer-centric investments in destination countries earn attractive returns. During their first three years as public companies, firms backed by corporate venture funds generally show better stock price performance than those companies backed by traditional venture capital. Most companies meticulously align their goals with the investment so that they can focus on appropriate portfolios. Most companies streamline their decision process to optimize returns.

Companies need to invest as much in learning from their start-ups as in making and overseeing deals (Lerner, 2013). Some companies have seen their venture initiatives fail, and even firms with successful funds have struggled to make use of the knowledge gained from start-up investments. Multinational companies could with benefit follow the guidelines given below while drafting and pursuing investment proposals with the governments or business organizations of host countries:

- Focus the investment proposal so that it is specific to the requirements of the country or region
- Develop the necessary convergence with the macroeconomic policies of the country
- Delineate approval points and schedules
- Check with all the people whose approval is needed
- Define alternative goals and approaches
- Determine the key indicators for all business proposals
- Prospect selling the proposal at a reasonable bid to optimize long-term gains
- Establish priorities and develop an activity schedule accordingly
- Be on the competitive edge along with participating bidders and draw defense for the project in terms of project execution and achievements
- Identify any potential competitors of the project and any points of potential resistance, and then establish strategies, or at least mental contingency plans to deal with them
- Measure the proposal against all stated corporate policy objectives
- Write the proposal in the prescribed format with the required information only
- Prepare a strong defense for all possible objections to the investment project
- Try to keep the project moving forward at a deliberate speed, and do not let it get stalled by excessive reviewing.

Systematic appraisal and professional management of all capital projects helps to ensure that the best choices are made and the best value for money is obtained. It is not enough to be satisfied that the investment is justified; it is also necessary to ensure that it produces its planned benefits at minimum costs. These costs include ongoing current costs generated by the use of the capital asset, as well as the initial capital cost. The appraisal stage involves two separate tasks, preliminary appraisal and detailed appraisal. Preliminary appraisal aims to establish if there is a sufficiently good prima facie case for considering a project in depth. It leads to a recommendation whether or not to proceed to the detailed appraisal stage. A detailed appraisal should only be carried out if justified by the outcome of the preliminary appraisal, and it leads to a recommendation on whether or not to proceed further with the project in principle. However, it is necessary for multinational companies to carefully review their investment proposals before the appraisal at government or sponsor's level. The review of the investment proposal may be undertaken by considering the following issues:

- Review and describe the financial sector; append the basic statistics for each, including assets, deposits and borrowings, capital and reserves, and profits
- Describe the expected growth of internal rate of return and its management criteria
- Describe the money and capital markets, the different instruments, their terms and conditions, etc.
- Estimate the total market value of each type
- Describe the foreign exchange regime; find out which institutions have been authorized to deal in foreign exchange rates during the last five years
- Explore credit allocated or directed by the government or regulatory authorities to particular market segments, and if there are any subsidized credit schemes in operation
- Describe how the project fits within the government's development objectives and policies for the sector
- Describe the market for the products and services
- Provide historical data and forecasts
- List the main competitors, both domestic and foreign; give indications of their volumes and market shares; explore if any of them are planning expansions. Also find out what will be the likely reaction of competitors to this project
- Review the marketing strategy selected and its justification; describe preparations for market research, product planning, pricing strategies, distribution, promotional programs, advertising, selling and so forth

- Describe the structure of the Board and management, including organization charts and CVs for key managerial personnel
- Describe planned human resources management for the project, including availability of personnel; also describe relevant laws, regulations and practices; indicate the cost of staff at all levels
- Describe proposed training programs and programs for localization, if relevant
- Provide detailed plans for raising the required capital; provide assumptions and details of pre-operating expenses and how they will be funded and accounted for
- Provide projected balance sheets, profit and loss accounts, and cash flow projections for the first three years of operation, stating detailed assumptions, especially rate and spread assumptions
- Compute various measures of performance as appropriate, such as risk assets to capital, operating ratios, return on assets, and return on equity
- Compute sensitivity analyses at various levels of business relative to the base assumptions
- Discuss realistically the risks involved in carrying out the project, including market, government regulations, management, labor, competition, system failures and so forth; then review how these risks will be guarded against.

The review process of an investment proposal is determined by the perspectives of the management board of a company. Often the process and philosophy of the review is leader-centric, and it changes dramatically with a new person at the helm. In any event, most companies have a comprehensive system for reviewing investment proposals, and all strive to determine whether or not the investment will provide long-term, lasting benefits for the owners. A framework for evaluation can be laid out considering the variables suggested for review of investment proposal. In the final analysis, the evaluation should provide the cost/benefit effects of the project for the host country, parent corporation, and foreign subsidiary.

The financial objectives of multinational companies are aimed at measuring the performance of the capital employed. Capital employed is the sum of all assets along with accumulated reserves for depreciation. Multinational companies may recognize that not all operations are directly comparable. They may realize that while setting targets for area profit centers and operations the nature of the operations and performance plans must be taken into account. Emphasis on asset management by the multinational company at all levels is underscored by reference to annual targets for cash generation, capital expenditure, and balance sheet items including inventory and receivables management. The finance managers of the company pay special attention to the differences between actual cash-generating capacity and book results. Each production group and profit center of product categories develops the net cash-generating capacity for its own requirements and also pools up sufficient funds for the company to meet its high-priority investment commitments and opportunities.

Financial objectives constitute the foundation for a company's financial decisions. Companies should be able to integrate the financial objectives for both the domestic and international business. For example, in order to protect against exchange rate fluctuations, a firm might require managers in overseas subsidiaries to regularly forecast the exchange rates month by month. Based on these forecasts, corporate funds in a currency likely to be substantially depreciated would be utilized before funds held in stronger currencies.

Purchasing power parity

Purchasing power parity (PPP) is an important and recurrent concept in international finance. It is a theory which states that exchange rates between currencies are in equilibrium when their purchasing power is the same in each of the two countries. This means that the exchange rate between two countries should equal the ratio of the two countries' price level of a fixed basket of goods and services. The theory determines the adjustments needed to be made in the exchange rates of two currencies to make them at par with the purchasing power of each other. This concept explains that the expenditure on a similar commodity must be the same in both currencies when accounted for the exchange rate. The purchasing power of each currency is determined in the process.

Purchasing power parity is used worldwide to compare the income levels in different countries. PPP can be understood by a commonly used example in reference to the price of a hamburger. If a hamburger is selling in London for £2 and in New York for $4, this would imply a PPP exchange rate of 1 pound to 2 US dollars. This PPP exchange rate may well be different from that prevailing in financial markets. This type of cross-country comparison is the basis for the well-known 'Big Mac' index, which is published by *The Economist* magazine and calculates PPP exchange rates based on the McDonald's sandwich that sells in nearly identical form in many countries around the world (Callen, 2012).

When a country's domestic price level is increasing (i.e. a country experiences inflation), its exchange rate must be depreciated in order to return to PPP. Several theories of the balance of payments and of the exchange rate deploy it in one way or another. The theory of PPP envisages that the same product or a package of products should sell for the same price in different countries when measured in a common currency. PPP has been used as a theory of the price level in the 'law of one price'. That is, in the absence of transportation and other transaction costs, competitive markets will equalize the price of an identical good in two countries when the prices are expressed in the same currency. One of the advantages of PPP exchange rates is that they are relatively stable over time. However, market rates are more volatile, and using them could produce quite large swings in aggregate measures of growth even when growth rates in individual countries are stable. Another drawback of market-based rates is that they are relevant only for internationally traded goods (Callen, 2012).

Arbitrage and hedging

In reference to the literature on economics and finance, arbitrage may be explained as the practice of taking advantage of a price difference between two or more markets at the same time. In arbitrage companies strike a combination of matching deals that could capitalize profit by exploiting the difference between the prices of identical financial instrument across the markets. In the financial management context an arbitrage may be understood as a transaction that involves risk-free profit at low transaction costs. For instance, an arbitrage could be exercised when there is the opportunity to instantaneously buy low and sell high of identical financial instruments across the markets. This is a very common practice followed by multinational companies through their financial agents or corporate fund managers.

The securities, futures, and derivatives industries are among the most regulated businesses in many countries. At the same time, professionals in these markets have to adjust to a business environment transformed and made more competitive by new technologies, where once-reliable businesses have abruptly become unprofitable and novel business models unimagined only a few years ago are vying for competitive footholds, and by the globalization of the financial markets. Arbitraging activity may be also be explained as the purchase or sale of an instrument and the simultaneous taking of an equal and opposite position in a related instrument to exploit mispricing. The simultaneous purchase and sale of an asset in order to profit from a difference in the price has emerged as one of the significant activities of companies in financial markets. Most private sector companies with public equity are engaged in arbitrage to enhance profit and stakeholder values by manipulating their financial instruments across the primary markets. Arbitrage may further be defined as the making of riskless, guaranteed profits by exploiting market inefficiencies. Such activity is undertaken by an arbitrageur, an investor who trades in the markets with the intention of making riskless, guaranteed profits by exploiting market inefficiencies. Arbitrage is a trade that profits by exploiting price differences of identical or similar financial instruments, in different markets or in different forms.

Arbitrage is followed by public equity companies as there is always risk in the financial markets as a result of market inefficiencies, and this strategy provides a mechanism to ensure that prices do not deviate substantially from fair value for long periods of time. As the financial markets in the twenty-first century have grown along the technology support, arbitrage has become a computerized trading system to monitor fluctuations in similar financial instruments. Any inefficient pricing setups are usually acted upon quickly, and the chances of trading at low or unyielding prices are eliminated in a matter of seconds. For example, if the same index contract is traded in two different exchanges, it should trade at the same price in both exchanges. If the prices are not the same, an arbitrageur will buy at the cheaper price and immediately sell at the more expensive price in the other market, making a guaranteed profit. The arbitrage channel is an area that exists both above and below the fair value of a future, within which no arbitrage will take place. This is because additional costs, such as exchange fees, bid/offer spreads, and commissions will exceed arbitrage profits within this channel. Thus, the width of the channel depends on the costs incurred by the participant in the marketplace.

Globalization has opened the capital markets for large and emerging companies to work with the powerful mechanism of arbitrage across international financial markets to augment their profits. However, to gain competitive advantage in internal markets companies need to balance opportunities in the financial markets with the challenges of operating financial instruments in multiple markets. To minimize competition, companies choose to stay constrained and underinvest in the arbitrage unless banks have sufficient reputational capital. This problem arises when mispricing of financial instruments is large. More competition among financiers, higher arbitrageur wealth, and allowing for explicit contracts affect the sustainability of corporate finance and primary financial markets. Buying and selling of financial instruments largely depends on stakeholder relations with the company and the trust of stakeholders in the financial markets that would be valuable for mitigating the risk in arbitrage (Kondo and Papanikolaou, 2015).

Often the assets being arbitraged are identical in a more complicated way, for example, there are different sorts of financial securities that are each exposed to identical risks. Some kinds of arbitrage are completely risk-free – this is pure arbitrage. For instance, if euros are available more cheaply in dollars in London than in New York, arbitrageurs can make a risk-free profit by buying euros in London and selling an equal amount of them in New York. The scope of absolute arbitrage has become unusual in recent years, by the increasing globalization of financial markets. Today, a lot of so-called arbitrage, much of it done by hedge funds, involves assets that have some similarities but are not identical.

Hedging involves deliberately taking on a new risk that offsets an existing one, such as an exposure to an adverse change in an exchange rate, interest rate, or a commodity price. Hedging is most often done by commodity producers, traders, and financial institutions. More recently, firms have hedged by using financial instruments and derivatives. Hedging sounds prudent, but some economists reckon that firms should not do it because it reduces their value to shareholders. The arbitrage pricing theory says that the price of a financial asset reflects a few key risk factors, such as the expected rate of interest, and how the price of the asset changes relative to the price of a portfolio of assets. If the price of an asset happens to diverge from what the theory says it should be, arbitrage by investors should bring it back into line (Rajagopal, 2007). Hedging may be defined as strategy to reduce the risk of investments from adverse price movements of financial instruments. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

Hedging is an investment intended to offset potential losses and gains that may be incurred by the investment. In simple language, a hedge investment is used to reduce any substantial losses suffered by an individual or an organization. A hedge fund can be constructed from many types of financial instruments, including public equity, exchange-traded funds, insurance, forward contracts, swaps, options, many types of over-the-counter and derivative products, and futures contracts. Public futures markets were established in the nineteenth century to allow transparent, standardized, and efficient hedging of agricultural commodity prices. They have since expanded to include futures contracts for hedging the values of energy, precious metals, foreign currency, and interest rate fluctuations. Companies generally delegate responsibility for managing a derivatives portfolio to in-house financial experts and the company's financial advisers because the inventiveness of modern financial markets makes it possible for companies to double or even triple their capacity to invest in their strategic assets and competencies.

3
Economic and Cultural Dynamics

Economic and cultural factors intensively affect the strategy development process of companies doing international business. One of the challenges facing multinational companies that are intending to penetrate in emerging market destinations is to develop the right strategies in managing the demand for innovative and competitive products. This chapter discusses the macroeconomic and microeconomic environment, impact on marketing strategies, environmental analysis and opportunities, concepts of culture, analysis of culture, cultural adaptation, culture change, and cross-cultural negotiations as major economic and cultural drivers in developing international business strategies. It also addresses economic risks and opportunities, and analyzes the strategies for developing critical management competence by companies in destination markets.

The economic advancement of a country may be reviewed by reference to its fiscal, monetary, and exchange rate policies over time, and the effectiveness of the changing policy framework in promoting stability and growth. The demographic conditions, income levels, consumption structure, and fiscal policies in a country determine the prospects of business growth. The contemporary concepts of economic advancement for developed countries include various macroeconomic indicators such as sectoral policy reform, economic integration, privatization, public sector enhancement, labor market competitiveness, investment climate enhancement, e-governance, commercial infrastructures for a developing economy, macroeconomic management, and effective long-range planning. The significance of the public sector acts as a serious impediment to rapid growth in many countries. The challenges of employment generation, economic growth, and societal advancement in changing demographic contexts can only be addressed through productive investment and value-building. The climate for investment is therefore critical for countries in need of a strategic direction and an economic concentration on value-building rather than value-trading, which leads towards the higher degree of economic advancement in a country (Rajagopal, 2007).

An economic system makes the business environment conducive and directs business growth in a country or an economic union. It is a system of production and exchange of goods and services as well as the allocation of resources in a society, which includes the combination of the various institutions, agencies, economic sectors like agriculture, manufacturing, and services in a given community. It is common belief that globalization has emerged out of the capitalist economic system. The capitalist system signifies that production and distribution are privately or corporately owned and development occurs through the accumulation and reinvestment of profits gained in a free market. There are four types of economic systems in the world as listed below:

- Capitalist system
    - Globalization, privatization, contract manufacturing
- Democratic system
    - Rights of corporations, government interventions, public interests, protectionism
- Communist system
    - State ownership, equality philosophy, localized growth
- Mixed economic system
    - Partial state control, local growth preferences, economic compartmentalization.

The capitalist system encourages privatization, outsourcing, and contract manufacturing. This economic system is growing across countries in the world; however, some countries defining protection to their native industries are leaning towards a total or limited democratic economic system. Countries experiencing transition in economic system towards democracy tend to take active steps to deter foreign companies from entering and investing in domestic firms, and often believe more in developing state-owned enterprises than privatizing them. Indeed, the rise of state capitalism in some of the world's most important emerging markets has altered the profile of market players in globalization. In order to safeguard their business interests companies need to consider meticulously the economic policies of both the host and home government before moving their business to the destination country. They can accordingly select an entry strategy to the destination country such as striking alliances with local players, considering customer-centric ways to add value in the overseas markets, entering multiple sectors, or staying home (Bremmer, 2014). The communist system is totally a state-owned system, and businesses largely perform at the local level, while the mixed economic system has partial attributes of both capitalist and state-owned economic policies.

Macroeconomic indicators

Economic indicators are the variables used to measure the soundness of a country's economy, such as GDP per head, rate of unemployment, or rate of inflation. Such statistics are often subject to huge revisions in the months and years after they are first published, thus causing difficulties and embarrassment for the economic policy makers who rely on them. The analysis of factors of production is an important consideration in international marketing to optimize comparative advantages in natural resources, labor, capital, and entrepreneurship. Entrepreneurs thus play an important role in enabling an economy to adapt to changing conditions and to new possibilities for material improvements by creating new production organizations, and even whole new industries. Because of its essential role in initiating the process of production, entrepreneurship is identified by some economists as a 'fourth factor of production', alongside land, labor, and capital. It may thus be explained that higher the productivity of a factor of production, the higher may be the income for the company. On the other hand, anything that rises above the expected levels of productivity within a society is responsible for an increase in the overall prosperity of the society.

Price indicators in international markets broadly include export and import price indices, consumer prices, wholesale prices, and industrial producer prices. Export and import price indices can be used to determine the impact of exchange rate movements on the prices of exports and imports. International price data have been useful for both multilateral and bilateral trade agreements, as often countries utilize them to negotiate trade agreements for some of their important industrial and consumer products such as construction materials, plantation crop products like tea and coffee, cotton textiles, oil, airfreight services etc. A primary reason for measuring import prices is to track the impact they have on domestic inflation. Movement in import prices can often be an indicator of future inflation since some inputs to domestic production and consumption are imported. Export and import price indices are essential for assessing the impact of international trade on the domestic economy. Some of their most important uses are analyzing developments in the trade balance, measuring domestic inflation, and deflating nominal values of exports and imports for estimating the volume of the gross domestic product. The producer price index (PPI) is a family of indices that measures the average change over time in selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller. This contrasts with other measures, such as the consumer price index (CPI), which measures price change from the purchaser's perspective. Sellers' and purchasers' prices may differ in view of government subsidies, sales and excise taxes, and distribution costs. It is difficult for a marketer to access information about and review all these indicators from each country. However, at any given time, the choice of economic indicators may be identified to determine the entry strategies of a firm. These indicators may reflect on the marketer's domestic operations and the potential business in the host country.

Economic development is directly proportional to the educational and training facilities available in the country. Human resources are not only the producers of goods and services but also their consumers, and they play a multifold role in economic development. Economic advancement is characterized by the following factors:

- Allocation of labor force to agriculture
- Energy available in large amounts at low cost per unit
- High level of GDP and income
- High levels of per capita consumption
- Relatively low rates of population growth
- Complex modern facilities for transportation, communication, and exchange
- Substantial amount of capital for investment
- Urbanization based on production as well as exchange
- Diversified manufacturing that accounts for an important share of the labor force
- Technology that includes ample media and methods for experiment.

These factors may be utilized to examine the economic standing of the host country, and the analysis of a large variety of information on these variables may help to categorize countries on an economic development scale. Besides, many historical, geographic, political, and cultural factors are intimately related to the economic well-being of a nation. Companies moving their production and business operations to new country destinations should meticulously review the macroeconomic conditions and analyze the correlations among the various macroeconomic indicators in order to take an appropriate decision. The causes and effects of different macroeconomic factors determining the decision of companies to go international are shown in Figure 3.1.

Figure 3.1 explains how macroeconomic indicators influence decisions on selecting an appropriate destination. Most companies are attracted by the size of population of a country, and it is generally assumed that larger populations provide better opportunities for doing business at the destination. Thus, for companies of the Western hemisphere China and India appear to be attractive destinations while Asian companies are attracted to do business in Europe and the USA. However, it is also necessary for companies to evaluate the advantages of doing business with reference to income and consumption patterns of the destination country. Companies should not lean towards choosing destination countries where migrant population is high, with low disposable income, and a subsistence consumption pattern is followed by a majority of the population. Countries with high rates of inflation, causing prices to escalate, a complex tax structure, and multiple tax layers in businesses would often prove to be poor destinations as firms might not earn the desired profit and stay competitive in the market. Credit availability and credit interest rates also affect consumption patterns in destination countries. It has been observed that an incremental pattern of disposable income and innovation of products in the market is associated with conspicuous consumption. Lower credit interest rates not only increase the consumption level but also induce greater credit card use irresponsibility among consumers. Greater levels of disposable income are associated with greater levels of compulsive buying and money anxiety (Fogel and Schneider, 2011). Rapid economic development and technological advancement have prompted consumers to part with higher disposable income for buying products selectively. The disparity in consumption and shopping patterns between higher and lower disposable income consumers along with other macroeconomic factors brings major challenges to existing companies to choose the best overseas destination for doing business. The destination business infrastructure, like shopping centers, transportation, IT communication, and the development of the retail sector, also affects the selection of destination for most multinational companies (Wong and Yu, 2002).

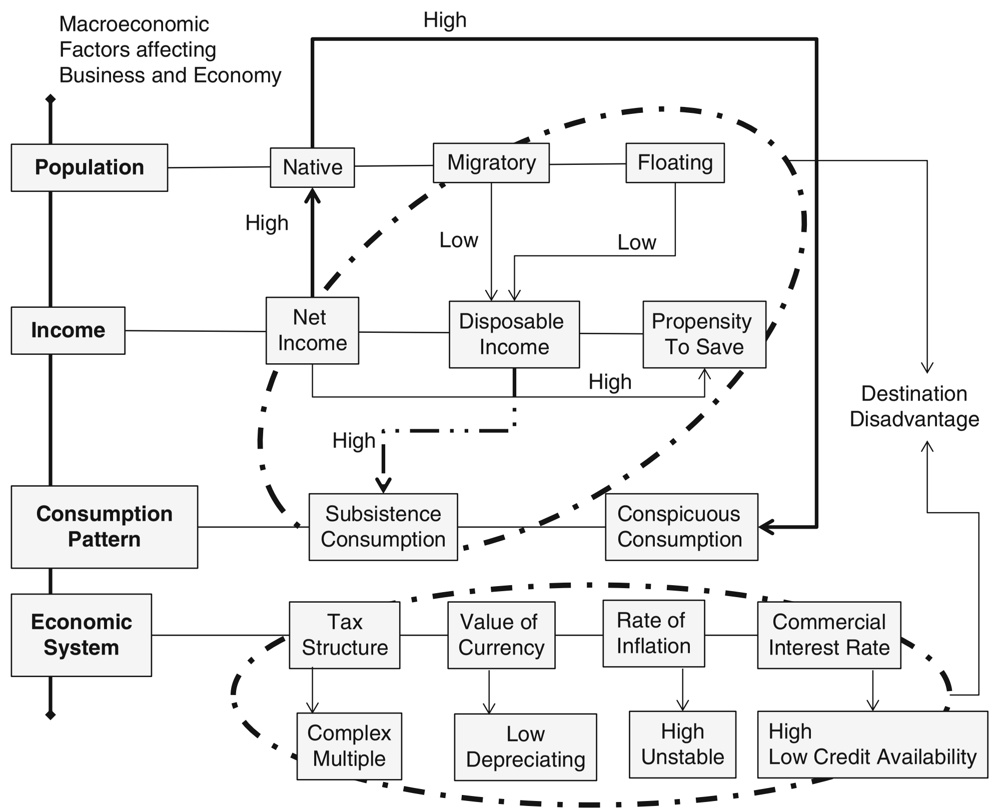

Figure 3.1 Impact of macroeconomic determinants on choice of market destination

In countries like the USA, where immigration of people from different parts of the world is frequent, the consumption patterns do not stabilize and markets largely operate within cultural niches. It has been observed that a migratory population has low disposable income and relies significantly on subsistence consumption, including food, medicine, and family support for survival. On the other hand, high-income native populations have a more significant impact on conspicuous consumption, including housing, education, food, and recreation. Operating in such foreign destinations does not provide a firm the opportunity to develop uniform marketing strategies, and most companies in such destinations operate in cross-cultural niches. Besides, there are significant interaction effects between income and consumption, which suggest that companies should choose appropriate strategies for gaining competitive advantages in such destination markets (Chu et al., 2015).

Macroeconomic policy refers to the top-down strategy developed and implemented in a country by the government and central banks, usually intended to maximize growth while keeping down inflation and unemployment. Countries with free market policies, in particular free trade and the maintenance of secure property rights, typically have higher growth rates. By 1990, most developed countries had achieved a higher growth rate, but during the 1990s, growth rates started to rise, especially in the USA. Some economists said this was the result of the birth of a new economy based on a revolution in productivity, because of rapid technological innovation (perhaps directly stemming from the spread of new technology) and inspired by increases in the value of human capital. At the end of the twentieth century, developments in information technology and globalization leading towards free trade through regional trade agreements gave birth to a new economy initiated in the USA. The new economy has shown a higher rate of productivity and growth than the previous economy it replaced. Open economies have grown much faster on average than closed economies.

The main instruments of macroeconomic policy include deviations in interest rates, regulation of money supply, taxation policies, and public spending. It has been observed that the growth rate of an economy declines and the gross domestic product of the country falls when the rates of unemployment and inflation tend to rise. This may be an evidence of poorly planned macroeconomic policy and its implementation. Higher public spending relative to GDP is generally associated with slower growth. A rise in the rate of inflation is the result of high social expenditure and political instability in a country. However, business cycles may simply be an unavoidable fact of economic life that macroeconomic policy, however well conducted, can never be sure of controlling. The long-run pattern of growth and recession in business, which may be explained as the boom and bust of the economy of a country or a region, may be described as the business cycle. There are two main versions of the new paradigm that have attracted companies in America lately over the reactions of previous business cycles. One version states that the country's long-term growth rate has shifted upwards, while the other reveals that the old pattern of boom and bust disappeared by 2000 in the light of the free trade and globalization movement.

Microeconomic factors

Demography, society, and production resources largely determine the consumption pattern of a region. A system of consumption depends on production and marketing activities in a region. Hence, every country exhibits specific patterns of consumption potential and structure. The consumption level in a country can be measured in terms of volume and compared with other countries in the region. The structure of consumption in a country may be determined by analyzing the behavioral attributes of its consumers. A country may emphasize producer goods over consumer goods in reference to economic factors; what is considered as a necessity in one economy may be a luxury in another. In addition, consumption in advanced countries is characterized by a higher proportion of expenditure committed to capital goods than in developing countries, where substantially more is spent on consumer goods. The structural differences with regard to expenditure among nations can be explained by a theory propounded by the German statistician Ernst Engel in 1857. The law of consumption (Engel's law) states that poorer families and societies spend a greater proportion of their incomes on food than 'well-to-do people'. Engel's law states that people generally spend a smaller share of their budget on food as their income rises. The reason is that food is a necessity, which poor people have to buy. As people get richer they can afford better-quality food, so their food spending may increase, but they can also afford luxuries beyond the budgets of poor people. Hence the share of food in total spending falls as income grows. Developing countries like the Philippines and Sri Lanka spend a larger percentage on food than countries like the USA (Rajagopal, 2007).

A careful analysis of a microenvironment indicates whether a company can successfully enter a specific market. It can be stated that prosperity of a nation depends on the productivity with which it uses its human, capital, and natural resources. This is manifested in the way a nation's firms compete. Productivity, in turn, is a function of the interplay of many factors, including political, legal, and macroeconomic context; the quality of the microeconomic business environment; and the sophistication of company operations and strategy. Together they determine the capacity of a nation to create internationally competitive firms and support rising prosperity. A context that continuously creates pressure for firms to upgrade the source and sophistication of their advantage and at the same time supports the upgrading process is a favorable microeconomic context. Pressure for upgrading is applied by demand conditions featuring sophisticated and demanding customers, whose demands spur the local firms to innovate in order to upgrade their product/service offerings. Particularly valuable is the pressure from local customers that anticipates the nature of demand elsewhere in the world. Different competitors, however, might aim to satisfy three different types of demand – existing, latent, or incipient. Existing demand refers to a product bought to satisfy a recognized need. Latent demand applies in a situation where a particular need has been recognized, but no products have been offered, while incipient demand describes a projected need that will emerge when customers become aware of it sometime in the future. Figure 3.2 illustrates the demand taxonomy and the nature of competition that prompts companies to market their products and services.

Most companies are attracted by the existing demand for products and services in the destination markets and tend to move their production and business operations accordingly. Figure 3.2 demonstrates that though the current demand for products in overseas markets shows a business potential, it also offers a warning about intensive existing competition. Many companies would be engaged in market operations in such a market, selling competitive products with marginal differentiation, which triggers a high substitution effect and increases the bargaining power of consumers towards product preferences in reference to price and promotion. One of the pro-company demand situations present in markets is latent demand when demand for products exists but the products are not available. Companies can take advantage of markets in such destinations and enjoy a near monopoly for a short period as it takes time for the local competition to emerge. Companies can use this near monopoly market situation to architect their brands and set price levels, and deliver adequate customer value to generate brand loyalty. Most companies exploiting such latent demand

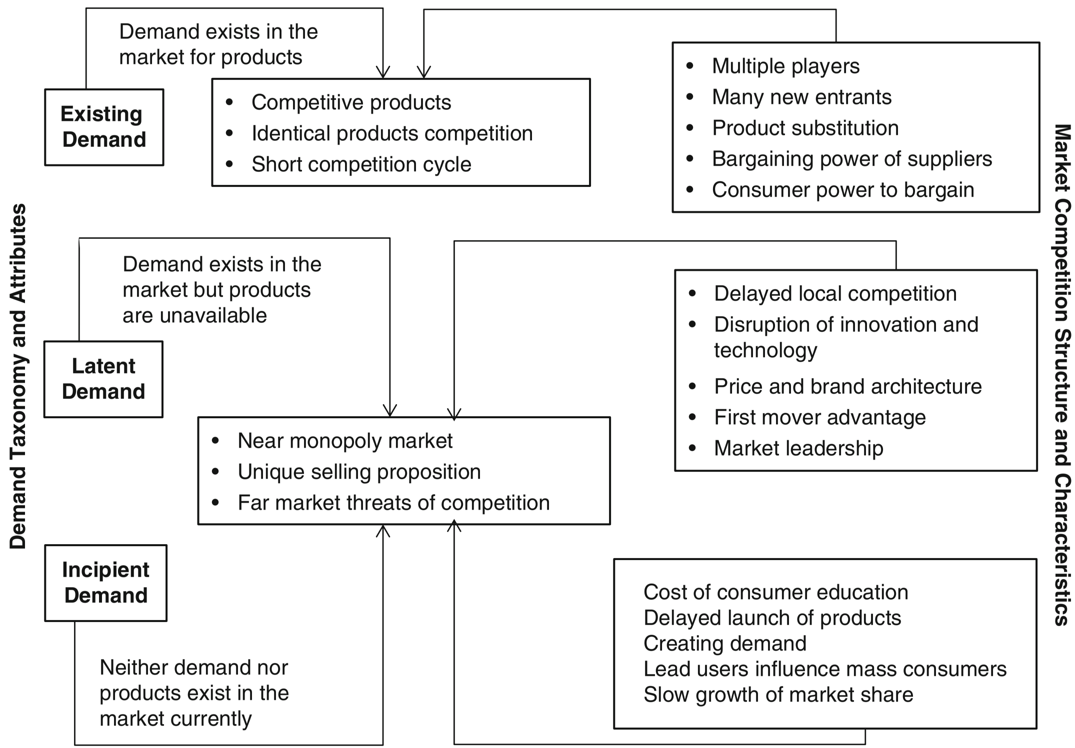

Figure 3.2 Taxonomy of demand and attributes of market competition

realize first mover advantages and attain market leadership. Companies engaged in manufacturing and marketing of high-technology and high-value products often need to create demand by educating consumers on the prescribed and perceived use values of their products and services. Such a demand situation is explained as incipient demand. In incipient demand, though companies enjoy a near monopoly situation for a short period, market share grows slowly as most consumers respond slowly to experimental products. However, in both latent and incipient demand situations there is the threat of the emergence of disruptive technology and products that target an attack on the market share of these companies.

Microeconomic factors are found within a company's business environment, and they guide the company in managing its competitiveness in the destination market. Microeconomic factors are largely woven around the marketing-mix followed by the company. Globalization has altered the conventional marketing-mix to a large extent, and now the elements of marketing-mix possess 11Ps. These comprise the conventional 4Ps of product, price, place, and promotion; in addition, there are 5Ps of packaging, pace (competitive dynamics), people (front liners in marketing), performance, and psychodynamics (peer-to-peer, word or mouth, or the grapevine effect), which constitute the extended operational factors of the marketing-mix; the additional 2Ps known as corporate factors involve posture (corporate image) and proliferation (product and market diversification). This new marketing-mix concept has become an essential part of the marketing practices of multinational companies. The integration of the 11Ps in a marketing-mix strategy is both effective and simple. By interconnecting marketing-mix elements such as product, price, packaging, and promotion with psychodynamics and posture, companies may gain sustainable competitive advantage, like Samsung in consumer electronics product markets and Wal-Mart in the global retailing sector. By applying marketing-mix companies can attain consistency, integration, and leverage in a marketing program to fit the needs of the marketplace (Rajagopal, 2011).

Microeconomic analysis can be carried easily on any topic, and it holds the core of recognized subfields of economics. Labor economics, for example, is built largely on the analysis of the demand and supply of labor of different types. The field of industrial organization deals with the different mechanisms (monopoly, cartels, and different types of competitive behavior) by which goods and services are sold. International economics discusses the demand and supply of individually traded commodities as well as of a country's exports and imports as a whole, and the consequent demand for and supply of foreign exchange. Agricultural economics deals with the demand and supply of agricultural products, farmland, farm labor, and the other factors of production involved in agriculture. The economics of supply and demand has a sort of moral or normative overtone, at least when it comes to dealing with a wide range of market distortions. In an undistorted market, buyers pay the market price up to the point where they judge further units not to be worth that price, while competitive sellers supply added units as long as they can make money on each increment. At the point where supply just equals demand in an undistorted market, the price measures the worth of the product to both buyers and sellers. Applied welfare economics is the outgrowth of microeconomics. It deals with the costs and benefits of just about anything—public projects, taxes on commodities, taxes on factors of production (corporation income taxes, payroll taxes), agricultural programs (like price supports and acreage controls), tariffs on imports, foreign exchange controls, different forms of industrial organization (like monopoly and oligopoly), and various aspects of labor market behavior (like minimum wages, the monopoly power of labor unions, and so on). Such microeconomic analysis in a host country may also provide an insight about trade competition in the region in terms of monopoly or oligopoly. Modern monopolies are less transparent, for two reasons. First, even though governments still grant monopolies, they usually grant them to producers. Second, some monopolies just happen without government creating them, although these are often short-lived.

In making decisions on international trade firms generally carry out benefit-cost analysis (BCA) if they feel that the advantages of a particular action are likely to outweigh its drawbacks. In the public arena, formal BCA is sometimes a controversial technique for thoroughly and consistently evaluating the pros and cons associated with prospective policy changes. Specifically, it is an attempt to identify and express in dollar terms all of the effects of proposed government policies or projects. Benefits in a market are measured by the propensity of consumers to pay for the product and services of the firm. The proper calculation of costs is the amount of compensation required to exactly offset negative consequences. Growing market dynamism, innovation, and new technologies have posed fresh challenges to the competitive advantage and sustainability of companies in reference to improving productivity, quality, and speed, benchmarking, and reengineering of manufacturing and business processes. As a result, dramatic operational improvements have taken place, but these gains have rarely translated into sustainable profitability. And gradually, the tools have substituted strategy to achieve competitive advantage by undertaking careful analysis of the microeconomic environment in the host country.

A company's profitability depends in partly on the structure of the industry in which it competes. Industry structure resides in five basic forces of competition: the intensity of rivalry among existing competitors; the threat of new entrants; the threat of substitute products or services; the bargaining power of suppliers; and the bargaining power of buyers. Industry structure is relatively stable, but industries are sometimes transformed by changes in buyer needs, regulation, or technology. Companies can shape industry structure rather than passively react to it. Many factors determine the nature of competition, including rivals, the economics of particular industries, new entrants, the bargaining power of customers and suppliers, and the threat of substitute services or products. A strategic plan of action based on this might include: positioning the company so that its capabilities provide the best defense against competitive forces; influencing the balance of forces through strategic moves; and anticipating shifts in the factors underlying competitive forces.

It has been observed that firms are often inclined to identify foreign destinations as a single market, or at least to differentiate very little among individual overseas markets. Another common error is the assumption that product or service concepts suited to a highly developed consumer economy will work as well in any foreign market. This is rarely true. Different markets require different approaches, and while shortlisting each country or group of countries to conduct business, the management should formulate a generic marketing strategy with respect to investment, risk, product, and pricing policies – that is, a unified strategic framework applicable to all the countries in each stage of development. This step should lead to a clear understanding of the respective stages of economic development of each country for the marketing strategies of a firm. In developing detailed marketing plans, it is necessary to determine which product lines fit local markets and to allocate resources accordingly. A rough analysis of potential international business, global sales, and profit targets based on the estimates worked out in the first phase helps in assigning product lines. A framework for resource allocation can then be mapped out according to rough comparative figures for investment quotas, management needs, and skilled labor requirements. This framework should be supplemented by company-specific examples of standard marketing strategies for each group of countries.

The microeconomic environment of a product also plays a significant role in its market performance in an overseas market. A very successful Asian electronics company, for many years a leader in electronic home appliances market, launched a cheaper version of its traditional product almost simultaneously in South-East Asia and in Europe. The marketing approach comprising product design, pricing, and advertising was quite similar in both areas. The product had been highly successful in the home market, but in Europe sales fell far below expectations. The product in the home market was successful as the company's product strategy was in the mature phase of its lifecycle, while in Europe it was at its beginning. The brand had stronger penetration in the home market than in Europe, which led to a weak consumer perception on the innovativeness of the product. Besides, adopting a low price without explaining the product concept in South-East Asian countries was sensible but the same strategy had a negative impact on European consumers. It may be observed from the above example that the Asian company encountered problems because it could not be competitive and had a low market share in Europe. Besides, the product was new to the European market, and at the beginning of the product lifecycle it presented an unfamiliar concept in the market. In other words, the Asian company did not orient its marketing program with the product/market environment existing in Europe.

Market competition

Competition may be analyzed with reference to the characteristics of products as either breakthrough, competitive, or improved. A breakthrough product is a unique innovation that is mainly technical in nature, such as the digital watch, VCR, and personal computer. A competitive product is one of many brands currently available in the market, and which has no special advantage over competing products. An improved product is not unique but is generally superior to many existing brands.

For example, let us assume Aubrey Organics is interested in manufacturing shampoo for sensitive hair in Turkey and seeks entry into the emerging market of the Middle East. The company finds that in addition to a number of local brands, Johnson & Johnson's baby shampoo from the USA and Suave Shampoo from Helen Curtis in India are competing products in the market. Proctor & Gamble has recently entered the market with its Pantene Pro-V brand, which is considered as an improved product. Most of the competition appears to be addressing existing demand. However, no attempts have been made to satisfy latent demand or incipient demand. After reviewing various considerations, Aubrey Organics may decide to fulfill latent demand with an improved offering through its Camomile Luxurious brand. Based on market information, the company reasons that a hair problem most consumers face in this part of the world is dandruff. No brand has addressed that problem. Even Proctor & Gamble's new entry mainly emphasizes health of hair. Thus, analysis of the competition with reference to product offerings and demand enables Aubrey Organics to determine its entry point into the Middle Eastern market.

Companies need to analyze a number of important issues when examining the microeconomic environment, as listed below:

- Who is the competition now, and who will it be in the future marketplace?
- What are the goals, objectives, and key strategies of competitors?
- How important are new destinations for a company as well to competitors, and are they strong enough to continue to invest?
- What are the strengths of the new markets?
- Do they have any weaknesses that make them vulnerable?

With growing market competition and creeping globalization, large companies tend to drive demand by creating new customer segments, managing cost convergences, and reworking the value chain in the destination markets. Implementing such strategies is initially capital intensive for the companies, leading to delays in returns on investment. Some established multinational companies are succeeding in manufacturing, retailing, and logistics businesses that also attract local competition. Multinational companies largely benefit local ancillary firms and gain confidence in the local market. Most companies employ technology and capital to accelerate growth in new consumer segments. Samsung and Panasonic Corporations, for example, made aggressive entries into the Chinese market, in which they faced vicious price competition for flat-screen and thin film transistor-liquid crystal display television screens. This quickly caused a collapse in demand for conventional televisions in China. In another example, Bharti Airtel, a mobile communications company, was able to enhance its market share and brand presence in India, one of the largest Asian markets, by building its market operation and by specializing its value chain towards customer care and the regulatory interface while outsourcing the rest of its services in India. This strategy has helped the company to reduce costs on various variables and allowed it to radically undercut advanced-market prices (Ghemawat and Hout, 2008).

One of the appropriate ways to examine competition in the destination markets is to draw up a profile of the industry. Markets dominated by small, single-industry businesses or small regional competitors differ significantly from those dominated by national or multi-industry companies. The competitor strengths may be measured by analyzing various functional indicators in marketing, as described below:

- Market share
- Differential advantages
- Cost advantages
- Reputation
- Distribution capabilities
- Core competencies
- Perceptions of target buyers
- Competitors' financial strength, which determines their ability to spend money on advertising and promotions, among other things
- Competitors' ability and speed of innovation for new products and services.

It is necessary to list the strengths and weaknesses of the competitors from the customer's viewpoint and analyze how a company can capitalize on their weaknesses and meet the challenges represented by their strengths. The information on the competitor can be easily obtained by getting a copy of their annual report. Analysis of many information sources may be required to understand competitors' strategies and objectives. In an international market, the business takes place in a highly competitive, volatile environment, so it is important to understand the competition. Some questions, as itemized below, can help the marketer to map the microeconomic variables in reference to a competitor:

- Who are your direct competitors?
- Who are your indirect competitors?
- Is their business growing, steady, or declining?
- What can you learn from their operations or their advertising?
- What are their strengths and weaknesses?
- How does their product or service differ from yours?

To take an example, the competition for photo film products has been increasing with competitive price and promotion strategies among the major international brands like Kodak and Fuji. Consumers have found a bona fide competitor to Kodak in Fujifilm. Clearly, Fujifilm has emerged from being a minor player in the early 1980s to take a solid number two position within the US market and has caught the attention, as well as the consternation, of Kodak. The success of low-priced superstores such as Wal-Mart has taught retailers that diversification, scrambled marketing, and 'one-stop' shopping are important to consumers. As consolidation in the retail industry sweeps in mass marketing, food and drug accounts, retailers realize they must maintain their competitive advantage or close shop. To survive, they are squeezing manufacturers for quality products at competitive prices to capture profit margins for expansion within the industry. This environment has provided an opportunity for Fujifilm to prosper in an otherwise stable and mature photographic industry. Though Kodak and Fuji fight for market share, the real winner and benefactor is the consumer. Both companies officially deny that they are engaging in a price war, but for each move Fuji makes, Kodak counters with a strategic move. Kodak and Fuji traditionally enjoyed healthy margins and treated the market as a mutually profitable duopoly (Finnerty, 2000). Then, in the spring of 1996, Fuji cut prices on film by 10 to 15 percent after Costco Wholesalers decided to go exclusively with Kodak. Fuji had excess inventory of 2.5 million rolls of film. They distributed the heavily discounted film to other retailers to avoid 'expiring' film and thus began a correlation between price-cutting and market share. Once consumers tried Fuji, they found they liked the product as long as it was priced lower than Kodak. By 1998 the severe pace of competition between Kodak and Fuji seemed to slow down, with the exception of value packs. However, the companies are still engaged in neck-to-neck competition in the market, although other brands like Agfa, Konica have made a dent in the global retailing, including American markets.

Competitor analysis is an ongoing process that allows new entrants to identify their respective strengths and weaknesses. By analyzing the movements of competitors, a firm may develop better understanding of what products or services should be offered in the segmented market; how to market them effectively and how to position them appropriately in the given market. One way to gauge the strength of a given competitor in a market is to measure its online presence. How often does the competitor's brand appear in all forms on the internet? In particular, how often does it appear in reference to the market of a firm and other companies? There are other, almost limitless, ways to learn about competitors. Competitive intelligence involves legal methods of data collection and analysis, from scouring securities filings and news reports to database research to schmoozing with representatives of rival companies at trade shows.

The soundness of the economy of a country largely governs consumer confidence, which further determines the buying plans of consumers. A favorable economic environment helps consumers to optimize their buying decisions and augment propensity to spend money. The reverse occurs when economic conditions are unfavorable. The economic environment in Brazil was not encouraging for the various segments of consumers at the end of twentieth century though inflation was under control. Credit restrictions had a negative impact on consumption in Brazil during this period. However, after the country exercised appropriate economic measures to stabilize the economy, it has been observed that foreign business corporations consider Brazil to be Latin America's most attractive investment target.

International marketers should examine the extent to which their business is vulnerable to economic conditions. For example, in a booming economy, consumers tend to buy durable goods, while in recession they avoid spending money. The prevailing economic environment is just an indicator to review the business fit in the given region or country. Even if the short-run economic environment is not conducive to profits, a company may decide to enter an overseas market in anticipation of favorable long-term economic prospects such as growing political stability, declining inflation, or low wage rates in the country. However, the long-run perspective is the crunch decision factor, which provides the firm sufficient resources to endure waiting for a future favorable environment. The market attractiveness of Brazil may be described from this point of view.

Emerging destinations for corporate business

In developing countries business opportunities may be explored for two prominent reasons. Firstly, a large number of developing countries are pursuing a growth path. Most recently, India and Eastern European countries have also opened up the gates to globalization in consonance with neo-liberal concepts. The developing world is beginning to rely on the international market mechanism to attract investment and technology and become industrialized. Such change proneness has given scope to increased demand for technological and environmental products the world over.

An example of organic products marketing may be appropriately discussed in this context. Most major markets offer good prospects for suppliers of organic products that are not produced domestically, such as coffee, tea, cocoa, spices, tropical fruits and vegetables, and citrus fruits. These opportunities stem from the simple fact that rapidly growing demand in most markets cannot be met by local supply, at least in the short and medium term. Developing countries produce a wide range of organic products and many are exporting them successfully.

Secondly, opportunities in developing countries should be even more closely examined than those in advanced countries as the government plays a significant role in business decisions in developing countries. This necessitates dealing with the procedural issues involved in foreign investment with considerable sophistication and confidence.

In an effort to create jobs, diversify and grow their economies, many countries in the Middle East have embarked on economic reform and privatization programs to attract foreign direct investment. Algeria, Kuwait, and Saudi Arabia are moving towards opening the development of their oil and gas fields to foreign companies, and Qatar and the UAE continue to use foreign companies as partners as they expand their oil and gas industries. Most recently, Egypt, Morocco, Tunisia, and the UAE have undertaken one or more new independent power projects, while most of the countries in the region have implemented new investment laws that allow foreign ownership of domestic enterprises to the full extent. Better laws and stricter enforcement of intellectual property protection in many countries have led to increased investment in the pharmaceutical industry in Jordan and in high-tech industries in Israel and the UAE. The Middle East has become an important region for the development of information technology. Several countries, including Egypt, Jordan, and Tunisia, are seeking to develop their IT industries. Two countries, Israel and the UAE, have already taken major steps to create dynamic IT sectors. Israel boasts a high-tech sector that is successfully integrated with the global economy. There are more than 400 US high-tech companies in Israel today, ranging from the giants, such as Intel and IBM, to 'specialty' companies with only a few employees.

An accelerating growth and poverty reduction requires governments to reduce the policy risks, costs, and barriers to competition that firms of all types face, from farmers and micro-entrepreneurs to local manufacturing and multinational companies. A growing private sector creates jobs, provides the goods and services needed to improve living standards, and contributes taxes necessary for public investment in health, education, and other services. But too often governments adjust the size of those contributions by creating unjustified risks, costs, and barriers to competition.[1] However, policy-related risks dominate the concerns of firms in developing countries. Uncertainty about the content and implementation of government policies is the top-rated concern, with other significant risks including macroeconomic instability, arbitrary regulation, and weak protection of property rights.

Analysis of consumer culture

Three points need to be made when analyzing culture. Firstly, culture is a total pattern of behavior that is consistent and compatible in its components. It is not a collection of random behaviors, but behaviors that are related and integrated. Secondly, behavior is learned and not biologically transmitted. It depends on environment, not heredity. It can be called the man-made part of our environment. Finally, culture may be manifested in behavior that is shared by a group of people, a society. It can be considered as the distinctive way of life of a people.

Accordingly a marketing manager of an international firm should be familiar with the reference groups, social class, consumption systems, family structure and decision making, adoption and diffusion, market segmentation, and consumer behavior in order to understand the cultural environment in the host country. In view of the varying definitions that exist on the cultural concepts, the following broad areas of culture may be addressed that are closely associated with international business:

- Technology and material culture
- Language
- Aesthetics
- Education
- Religion
- Perceptions and attitudes
- Social values and lifestyle (VALS)
- Social organization
- Political life.

Consumers behave in the market in four different ways – proactive, reactive, interactive, and inactive. All four ways of expressing consumer behavior refer to their cultural background. Proactive consumers are experimental to new products and prone to accept the cultural changes induced by the market, while reactive consumers are critical of new products, strategies, and corporate initiatives, and prefer the conventional culture that has grown over time in the society. Proactive consumers are largely induced to the markets through lifestyle interventions and cross-cultural fusion. Reactive consumers are aggressive in sharing their experience and often are critical about the products and services of the company. Interactive consumers express their views logically and analyze the products and services of a company rationally and comparatively. Inactive consumers are passive and non-responsive. The cultural taxonomy and attributes driving business and consumer behavior are shown in Figure 3.3.

A learned cultural system consists of patterns of traditions, beliefs, values, norms, meanings, and symbols that grow in the society and are passed over generations and practiced historically, as illustrated in Figure 3.3. Companies doing business in the destinations where a learned culture dominates should not develop strategies that disrupt the cultural values of consumers. Such shocks might jeopardize the marketing operations of an overseas company and cause threats to its sustainability. In April 2001, fast global food chain McDonald's was accused of selling French fries that contained natural beef extract to the vegetarian consumer community in India, offending their socio-religious beliefs. When this information was publicly disclosed, Hindus and vegetarians worldwide reacted with anger. They felt misled and embittered even though the company never explicitly claimed that its fries were suitable for vegetarians (Zwart and Tulder, 2006). Such marketing strategy badly damages a brand image and raises issues on its sustainability in the destination country. Often external cultures influence learned culture and drive consumers towards cross-cultural experience. However, consumers strike a balance between native and acquired cultures, revealing a kind of ambidextrous behavior.

Consumers in the acquired culture are prone to accept behavioral changes, adapt to modern values, and are interactive in the market. These attributes of the acquired culture drive multinational companies to develop dynamic marketing strategies, build their brand, and augment market share.

Shared culture is an agglomeration of consumers of different cultures in a destination like the USA where consumers of Hispanic, Asian, European, and African cultures are located. Such destinations largely induce niche marketing as consumers would prefer to stay with their own cultural regime even though residing overseas. It is commonly observed that the disposable income of consumers in such shared culture markets is limited and they stay price-sensitive.

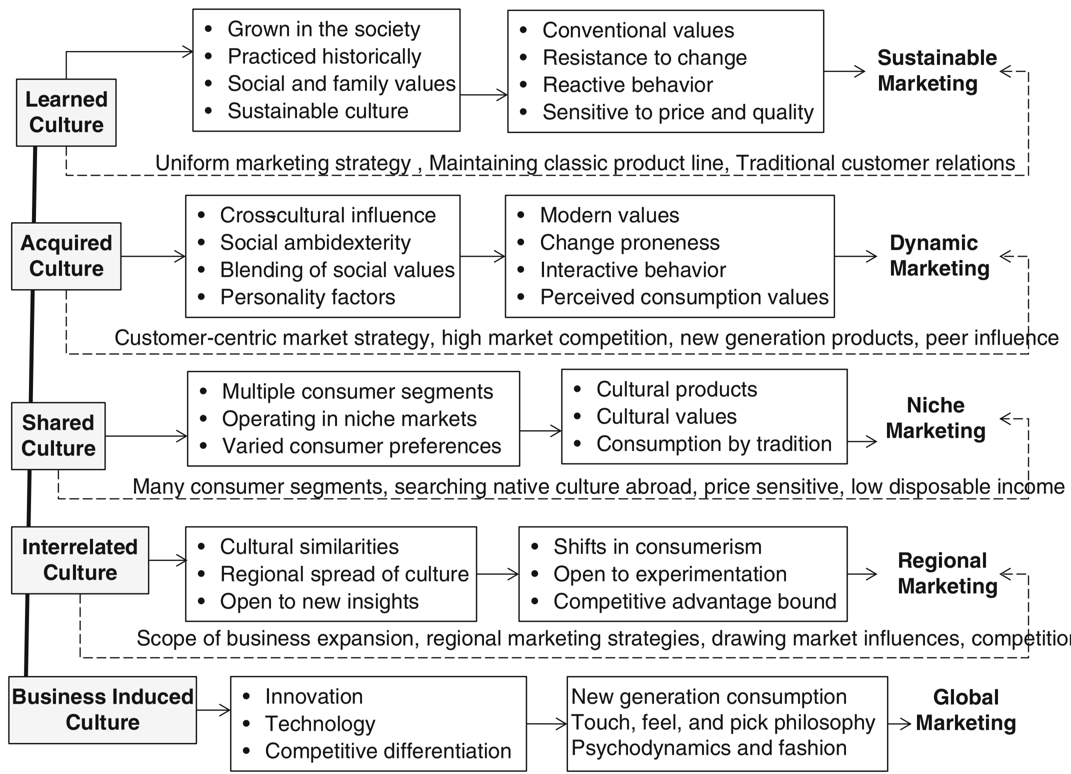

Figure 3.3 Cultural categories and factors driving marketing strategies

Contrary to shared culture destinations, the interrelated culture provides a wide opportunity to the business houses to expand their manufacturing and marketing operations regionally as there are cultural similarities. Latin American countries including Mexico, Argentina, Venezuela, Columbia, Peru, and Chile possess a similar culture with respect to language, consumption, social, and personal preferences.

The business-induced culture prompts consumers to go global for experiencing innovation, technology, value additions, and competitive differentiation in products and services. The emerging consumer philosophy in global markets is woven around touch, feel, and pick of brands driven by strong word-of-mouth.

Market integration allows consumers to buy goods from all over the world in their local shops and supermarkets. While local businesses must compete with these foreign goods on their home turf, they also have new opportunities to develop their export markets by selling in a multitude of other countries. Cultural goods and services are no exception to these new patterns of production, consumption, and trade. Cultural markets are increasingly going global, as may be observed by the trends in cultural goods trade in the post-1980 period across countries in different regions.

As consumption of cultural goods and services spreads all over the world, production itself tends to concentrate. This results in an oligopolistic market with a highly asymmetric structure. The effects of this market profile are as yet unknown: while we are aware that a large share of the cultural products circulating in most countries is produced elsewhere, we know very little about the impact of this global cultural market on citizens, audiences, businesses, and governments. The past few years have seen the emergence of a powerful interest in culture resulting from a combination of diverse phenomena such as globalization, regional integration processes, and cultures claiming their right to express themselves – all this in a context where cultural industries are progressively taking over traditional forms of creation and dissemination and bringing about changes in cultural practices.

The issue of 'culture and trade' has now acquired prime strategic significance. Cultural goods and services convey and construct cultural values, produce and reproduce cultural identity, and contribute to social cohesion; at the same time they constitute a key free factor of production in the new knowledge economy. Culture is an essential dimension of business development. Business solutions should be tailored to locally relevant traditions and institutions, and these activities should make use of local expertise and knowledge. The international company entering the host country should ensure that people, their cultures and society, and their organizations and institutions are taken into account in formulating business goals and operational strategies.

Cultural variables and the international business environment

Culture may be understood as the underlying value framework that governs individual and group behavior. It is reflected in the perceptions of individuals in observed events, personal interactions, and in the selection of appropriate responses in social situations. Culture often manifests itself in learned behavior, as individuals grow up and gradually come to understand what their culture demands of them.

Material culture

Material culture includes the tools and artifacts – the material or physical things in a society, excluding the physical things found in nature unless they undergo some technological procedure. Material culture affects the level of demand, the quality and types of products demanded, and their functional features, as well as the means of production of these goods and their distribution. Countries with large populations such as India, China, Russia, and the United States are really multicultural, meaning that they contain a wide variety of cultures within their borders. Culture directly influences consumers in reference to what they understand, analyze, and adapt. This interpretation of culture is very useful for global marketing managers.

Language

Language is an important cultural tool for conducting international business in the host countries effectively. Language has a deep-rooted sentiment in the people. It is just not a spoken word, but also symbolic communication of time, space, things, friendship, and agreements. The language people speak is part of the culture in which they were raised. Therefore, the language used in all marketing communications, including advertising, public relations, and general communications, should reflect the unique cultural expressions and values of the target locale. Nonverbal communication occurs through gestures, expressions, and other body movements.

The language used in business should be regarded as offering the most appropriate sense of communication and should not be literally translated into the other language. Some examples may be illustrated as the phrase *body by Fisher*, when translated literally into the Flemish language spoken widely in Belgium, Netherlands, and Luxembourg (Benelux) conveys the meaning of *corpse by Fisher*. Similarly, the *Nova* model of the General Motors car in Spanish conveys *it does not go*, and it has been difficult for the company to position this brand in Latin American market. Another example relevant to cite in this context is Olympia's Roto photocopier machines, which did not sell well in Latin America because *roto* refers to the lowest class in Chile and has the meaning of *broken* in Spanish.

The English language differs so much from one English-speaking country to another that sometimes the same word means something entirely opposite in a different culture. *Table the report* in the US means postponement; in England and India it means *bring the matter forward for discussion*. Gerber (now acquired by Nestlé), the name of the famous baby food maker, is also a French slang word with the meaning throw up, spew out or vomit. It becomes limiting when such a firm goes global and gets trapped in language conflict that hinders brand positioning in the host country.

Language differences can affect all sorts of business dealings, contracts, negotiations, advertising, and labeling. International marketing communication managers constantly struggle with the difficulties of localizing their messages for multiple audiences that speak and understand different languages and have diverse cultures. Understanding the conventions of culture as well as the individual cultural differences and similarities of target locales empowers marketing professionals to realize that one universal message, whether verbal or visual, can never reach a global audience.

Social institutions

Social institutions play a significant role in nurturing cultural heritage, which is reflected in individual behavior. Such institutions include family, education, and political structures. The media affects the ways in which people relate to one another, organize their activities to live in harmony with one another, teach acceptable behavior to succeeding generations, and govern themselves. The status of gender in society, the family, social classes, group behavior, age groups, and how societies define decency and civility are interpreted differently within every culture.

Social institutions are a system of regulatory norms and rules of governing actions in pursuit of immediate ends in terms of their conformity with the ultimate common value system of a community.

They constitute underlying norms and values making up the common value system of a society. Institutions are intimately related to and derived from value attitudes common to members of a community. This establishes institutions as primarily moral phenomena, which leads to enforce individual decisions on all human needs including economic and business-related issues. The primary means for enforcement of norms is moral authority whereby an individual obeys the norm because that individual believes that the norm is good for its own sake.

Aesthetics

Aesthetics may be described as the set of creative ideas embedded in culture concerning the sensory appeals of the people towards beauty, art, and taste. Since actions or behavior can be said to have beauty beyond sensory appeal, aesthetics and ethics often overlap to the degree that this impression is embodied in a moral or ethical code. A value system, which is the prioritization of the values held by an individual or group in a society, forms the base of a moral code. Such dimensions are reflected in consumer behavior. In conservative societies in Asia, such as Japan or India, any communication or art that exposes women is not socially accepted, despite the aesthetic standpoint of the critics. In some cultures, the relationships between moral and legal codes are often one and the same. Moral codes help drive personal conduct. Aesthetics include the art, drama, music, folk culture, and architecture prevalent in a society, and these aspects of a society convey its concept of beauty and modes of expression. In different societies colors have different significance. Hence in Western societies, wedding gowns are usually white, but in Asia white symbolizes peace or sorrow. The aesthetic values of a society show in the design, styles, colors, expressions, symbols, movements, emotions, and postures valued and preferred in a particular culture. These attributes have an impact on the design and promotion of different products. In many situations the symbolic expressions of communication have greater appeal than the actual words, and people respond accordingly. Therefore, an international businessperson must understand nonverbal cultural differences to avoid communicating the wrong message.

Religion

Any human activity, and that includes business, conducted under the guidelines of one of the major religions will work better because the essence of business is trust and religion. Trust means an honest day's work for an honest day's pay, tough but fair dealing, transparency without hidden agendas, and above all truth that is an outgrowth of religious sentiments in the society or an individual. The relationship between the business and religion truly poses a self-challenge.

Mary Kay Inc., an international direct marketing cosmetics company, operates on a Go-Give philosophy.[2] All consultants and sales directors share their experience and guidance with new team members until each reaches her potential. When illness or emergency keeps someone from a scheduled skin-care class, it is not unusual to have some help from others. 'In business for yourself but not alone', is a Mary Kay Ash philosophy that guides its independent sales force. Mary Kay skin care is taught, not sold. Rather than approach customers with 'dollar signs in their eyes', consultants operate with the goal of helping women achieve positive self-image and of leaving the customer feeling better about herself. Mary Kay Ash said, 'Ours is a business where selling results from a truly one-on-one personal relationship.' According to Mary Kay, a career is not considered an end in itself, but a means to an end; to personal fulfillment, family comfort and harmony; to a balanced life; to self-expression. Hence the business philosophy of Mary Kay Inc. has been centered on the religion that reveals 'God is first, family second and third is the career'.

Self-referencing criterion and social marketing

It is necessary for a marketer to remember that self-referencing can be misleading while interpreting various cultural manifestations in different countries. A self-referencing criterion (SRC) may be described as a process by which judgments on others are formed. It involves judging others' behavior against antecedents and experiences that are weighed on a preconceived platform of thinking. Before framing perceptions and conclusions, it would be wise to check with people who are familiar with the culture of the host country, and perhaps debate issues of concern on a knowledgeable base. However, the bottom line is that an international marketer should learn about the culture by creating trust on first impressions or preconceptions, and play down self-referencing in favor of more objective information. Cultural adaptation refers to the making of business decisions appropriate to the cultural traits of the society. In other words, decision makers must ensure that native customs, conditions, and taboos offer no constraint to implementation of the marketing plan.

The general culture defines a set of acceptable and unacceptable behaviors within social norms. Individuals should learn to act according to these behavioral norms, while managers need to learn how to do business. These are the processes of enculturation and socialization. They determine how individuals will behave as consumers in the marketplace, how demanding they are, how they voice complaints, how managers will approach subordinates and peers, and so forth. In due course of time individuals become skilled in exhibiting acceptable behaviors and identifying the unacceptable behaviors in order to be less risk averse. An American marketer will be good at briefly presenting his or her point of view, while a Japanese counterpart will be good at listening. But going beyond one's accustomed norms is hard to do.

Acceptable behavior in the business firm is usually a reflection of acceptable behavior in society, especially if the company is large. In multinational companies employees cannot know each other personally and thus have to rely on more arms'-length relationships based on the general culture or the corporate culture. Regional business houses that are relatively smaller in size than multinational companies may be less orthodox, with an organizational culture that is cultivated, is unique and different form the larger societies. Relationship-building is a prerequisite for an international firm to achieve success in business. The manager of an international firm should ask the sales representative of his company how many new relationships were built and if the employee participated in the local culture, before evaluating his performance at the end of the day of business. The manager may then consult his local colleagues to give their impression of how well the expatriate is working out in their country.

Urban and ethnic marketing strategy requires an understanding of in-culture nuances and lifestyle of the marketing segment that a business is trying to reach. While urban marketing is employed to reach Hispanic, Latino, Asian American, and African American markets because of demographic clustering of these subcultures in metropolitan areas, it is also used to tap into certain niche markets best found in urban environments. Urban and ethnic marketing strategies integrate consumer marketing solutions, including internet and technology aspects within the cultural environment of host country. An international marketer should evaluate the psychographic and demographic profiles that indicate the target market of urban and ethnic groups.

General Motors (GM) Company made significant contributions to the cultural event 'America on the Move' when it exhibited at the Smithsonian's National Museum of American History. GM appeared to be the largest single donor that ever contributed to a cultural group. This promotional strategy won the car company naming rights and a prominent place in all promotions.[3] However, museum curators insisted that the car company had no influence on content; there had been accusations that the exhibit was a commercial for GM.

4
Political and Legal Factors

Companies intending to establish business in overseas destination markets need to acquire thorough knowledge on the functioning of the government, stability in international and domestic commerce policies, and embedded political philosophy in the country. Though globalization has influenced the political ideology of most of the developing countries and has driven liberal economic and diplomatic policies to blend international business with local markets, political interventions are unavoidable for overseas companies. On the other hand, governments in some developing countries are ineffective in responding to norms of international business conduct, such as implementing intellectual property rights, which may cause deep concern for multinational companies seeking to do business in the destination markets. In view of the above, this chapter addresses the issues on changing political ideologies and business growth, political interventions, political risk assessment, international legal perspectives, host country laws, arbitration, and concerns on intellectual property protection in the destination markets.

Despite political and economic conflicts across many countries in the mid-twentieth century, globalization led to increased business opportunities, and the changing political ideologies in developing countries reformed the rules of the game in international business. Most emerging markets have opened up for global trade, and contract manufacturing practices facilitated global companies in using regional resources. The growing network of information and communication technology across the destinations has led to convergence among political, economic, social, technological, and legal factors. Consequently, global companies have expanded their business from developed countries to bottom-of-the-pyramid market segments, and the impetus to grow global has driven the local companies. Different institutional settings and different organizational players are engaged continuously in the twenty-first century to shape business opportunities through different public policy processes operating in various destinations. The changing politico-economic scenario across countries enables companies to determine public policy arenas to make their business operations easy and competitive (Keim and Hillman, 2008).

It is important to understand that the global political environment has a greater role to play in all business and economic matters today, but it remains in a constant flux. The political system of a country is shaped after passing through major processes of growth, decay, breakdown, and a ceaseless ferment of adaptation and adjustment. The magnitude and variety of the changes that occurred in the world's political systems between the 1920s and 1980s, for example, suggest the complex dimensions of the problem. It may be observed that during the last century, great empires disintegrated; nation-states emerged, flourished briefly, and then vanished. In the middle of the twentieth century the nature of political life changed everywhere with novel forms of political activity as the new means of mass communication, increase of popular participation in politics, and the rise of new political issues offered better understanding of international politics and popular governance in reference to global integration. Besides, the extension of the scope of governmental activity and innumerable other social, economic, and technical developments in developing countries made the case for stability in the government for effective implementation of international development programs, and trade policies have been one among the international priorities (Rajagopal, 2007).

The majority of the world's political systems have experienced one form or another of internal warfare leading to violent collapse of governments in power. Besides, certain crisis situations seem to increase the likelihood of breakdown in the governing politics of a region or a country. In the politico-economic scenario economic crisis is another common stimulus to political setbacks, as may be witnessed in the recent Argentine crisis. The Brazilian economy was also in meltdown in the late 1990s due to internal economic instability. However, most companies are more attracted by the comparative advantages in the factors of production than the political risks, and jeopardize their manufacturing and marketing operations. For example, a watchband manufacturing company based in Seoul considered opening a factory in the Kaesong Industrial Complex, a special administrative industrial region of North Korea. It was formed in 2002 from part of the Kaesong Directly-Governed City. Such a decision on a business operation might offer comparative advantages in terms of low costs of labor and low capital risk, but there are substantial risks concerning South Korean employees' safety, the human rights situation, and the uncertainties of dealing with a volatile regime in North Korea. The political environment of a country always determines business growth, either positively or otherwise (Chun et al., 2010).

The political situation of a country may be explained in terms of economic growth, which is reflected in the gross domestic product, economic stability, and social security. The political environment of a country also contributes in building the social position of individuals. A sense of insecurity and uncertainty for the future, and an aggravation of the relationships among social classes also results in politico-economic conflicts in a country. A severe political crisis develops distrust in the economic system triggers the outbreak of revolutions in the political system, and reduces the prospects of business growth. Political unrest in a country spurs a number of experimental conditions for the stability of a political system in extremely revealing ways that often induce either change in the political leadership or the restructuring of the political governance system. Since the quality of the political leadership is often decisive, those systems that provide methods of selecting able leaders and replacing them possess important advantages towards internal and global political concerns. Instable political systems are vulnerable to social and economic crises that break down into various forms of civil warfare that damage business and social sustainability. The fundamental causes of such failures appear to be the lack of a widespread sense of the legitimacy of state authority and the absence of general agreement on appropriate forms of political ideology and action.

As globalization has promised economic benefits the world over, emerging markets like China, politically unstable countries in the Middle East, and post-communist countries in Europe are aiming at establishing convergence between their political ideologies and business initiatives. Most companies do their investment calculations in these destinations by reference to political risk analysis to measure the impact of politics on potential markets, minimize risks, and exploit global opportunities. However, political risk is more subjective and unpredictable than economic uncertainties. It is influenced by political values, social ethics, foibles of government leaders, and the rise of popular movements in neighboring destinations. So corporate leaders must not only look for broad, adaptable trends but also develop alternate growth models for their business. Factors that have cognitive and value-oriented implication and are hard to quantify should be analyzed from the relevant social and cultural perspectives. Companies need to develop clear business objectives, make rigorous political assessments and engage in debating the worth of operational or infrastructural investments abroad as goods, services, information, ideas, and people cross borders today are shifting from the old predetermined path with unprecedented velocity. Companies can buy political risk analyses from consultants or develop them in-house (Bremmer, 2005).

Determining the political environment

The political and legal environment of a nation significantly influences the practice of international marketing. The political setting of a country comprises the international environment, host-country environment, and home-country environment. Many studies have shown that dealing with problems in the political arena is the principal challenge facing international managers in developing pro-political strategies to run the business successfully in the host country. It is observed that each country has its own set of national goals, but most countries also share many common objectives. Nationalism and patriotism refer to citizens' feelings about their country and its interests. Such feelings exist in every country, and multinational firms, individually or collectively, may be perceived as a threat to that sovereignty. The foreign firms perceive greater threats if they are larger in size and more in number in a country. At the time of any political turmoil foreign firms may be targets for attack. Many countries seek 'national solutions' to help troubled companies to retain what are perceived to be national champions. International firms need to be sensitive to these issues and to be careful not to be too 'foreign.' This includes advertising and branding policies as well as ownership and staffing. Establishing local R&D would be perceived favorably in this context.

The international political setting involves political relations among the countries with common ideologies. The foreign firm needs to make all necessary adjustments with the host country's international relations, no matter how non-aligned it may try to be. Such strategic adjustments in tune with the international environment of the host country are required as its operations are frequently also related to neighboring countries, on the supply or demand side, or both. Another critical factor affecting the political environment is the diplomatic relations of the host country with others in the region or beyond. If a country is a member of a regional group, such as the EU, NAFTA, or ASEAN, its political identity influences the firm's operational and expansion opportunities. If a nation has particular friends or enemies among other nations, the firm must modify its international logistics to comply with how that market is supplied and to whom it can sell. For example, the USA limits trade with various countries, and Arabian countries do not entertain any business activities with Israel. Participation of the host country in regional trade agreements or with international trade organizations may affect patents, communication, transportation, and other items of interest to the international marketer. As a rule, the more international organizations a country belongs to, the more regulations it accepts, and the more dependable is its economic, political and legal environment. The political environment in the home-country is also an important indicator for a firm to decide on its entry to the host country. However, an adverse environment therein may constrain its international as well as domestic operations.

Some of the key issues in reference to measuring the performance of the government in the given political environment of the home country may be considered by the firm, as described below (Rajagopal, 2007):

- **Measuring performance:** Governments need to continue to focus on gauging performance by what is achieved. Leaders should strive to understand the real results being delivered, and the real progress being made.
- **Improving through competition:** A government's position is often perceived as compromised by social pressures. The issues of trade protection, allowing foreign companies to participate in the host country, repatriation of profits and other economic issues are subject to the prevailing political ideology in the host country.
- **Streamlining operations:** It is necessary for a foreign firm to examine the pattern of government activities in the home country. Many government operations can be performed by third parties, often at lower cost and with equal or higher quality.
- **Promoting efficiency:** Most government employees are not as talented and industrious as those of result-oriented organizations in the private sector. Their behavior is largely driven by bureaucracy, rewards, and incentives.

Many multinational companies face uncertainty in political environment due to instability in political leadership, coalitions, and external pressures. Even if they face no problems in the home country and the host country, they can face threats in neighboring markets. Firms having no problems with their home government or the host government may be singled out or boycotted in neighboring countries. Escalation of political conflicts in many developing countries and their impact on economic development has been a topical issue in recent literature. The overwhelming emphasis on 'ethnic conflicts' in this literature has, however, precluded looking at political conflict in the wider context of the development process, going beyond the ethnic dimension. In particular, because of the preoccupation with the ethnic roots as the prime source of these conflicts, reverse causation running from economic policy to political conflict has been virtually ignored in the debate (Abeyratne, 2002). The effectiveness of the political systems in a country may be analyzed by foreign firms with reference to the following indicators:

- Democratic effectiveness: capable of deepening democracy and democratic citizenship
- Policy effectiveness: capable of tackling fundamental developmental problems of poverty and social equality
- Conflict-management effectiveness: capable of channeling conflicts and rendering them less destructive.

Many countries in different parts of the world undergo political conflict of various natures, like turmoil, internal war, and conspiracy, which can be irregular, revolutionary, and/or sporadic. Turmoil refers to instant upheaval on a massive scale against an established political regime. Internal unrest in a country refers to large-scale, organized violence against a government, such as guerrilla warfare. The example may be cited of Vietnam's actions in Cambodia and internal violence by the self-proclaimed people's groups in north-eastern states in India. Political change in a country sometimes leads to a more favorable economic and business climate. Political conflict may lead to unstable conditions, but those conditions may or may not affect business. Therefore, political risk may or may not result from political unrest. International business houses must analyze chronologically the occurrence of political conflict and assess the likelihood of its impact on the business environment. On many occasions political unrest is temporarily focused on the international policies of the government. There have been anti-globalization protests in many countries during the international political movements on developing countries intending to join the World Trade Organization. It is important to understand the nature of political conflict in foreign countries and the motivation behind government actions. If a change in government policy is only symbolic without any indication of change in the implementation process, it represents less risk to foreign firms.

Political interventions

When a firm chooses to enter or continue business in a foreign market, it becomes exposed to the associated political risks, which should be assessed and managed. Help is available to become aware of the level of macro political risk; that is, the political risk across industries or all businesses in entire countries or geographic regions. Yet, surprisingly little guidance is available to identify and assess firm-specific political risks, termed micro political risk. There are some new perspectives of micro political risk within a host country, with causes due to economic, social, and governmental forces. However, if the government of a country is promoting the growth of a specific industrial sector, say energy, communication technology, or automobiles, such policies significantly affect the prospects of multinational companies. The challenge is to create and sustain political advantage – to develop a stable, ongoing relationship that makes Washington an ally in the battle for global competitiveness. The political effectiveness of the semiconductor industry shows what it takes to succeed, even with limited political assets (Yoffie, 1988).

Political intervention is a decision taken on the part of the government of a host country intended to force a change in the operations, policies, and strategies of a foreign firm in the interest of the country. Such interventions may range from enforcing control for a complete takeover, or annexation of the foreign enterprise. The magnitude of intervention would vary according to the company's business existing in the host country and the nature of political decisions taken there. In countries where foreign investment plays a significant role in the economy, the possibility of political interference in the operations of foreign firms is higher and stringent. Besides, the political system of a country, whether democracy, communism or mixed economy, also indicates the nature of any intervention. If a foreign company is prominent in the economy in developing countries, as in the cases of Zambia, Guinea, Iran, and Tanzania, the possibilities of government intervention are relatively greater in reference to public policies. There are number of

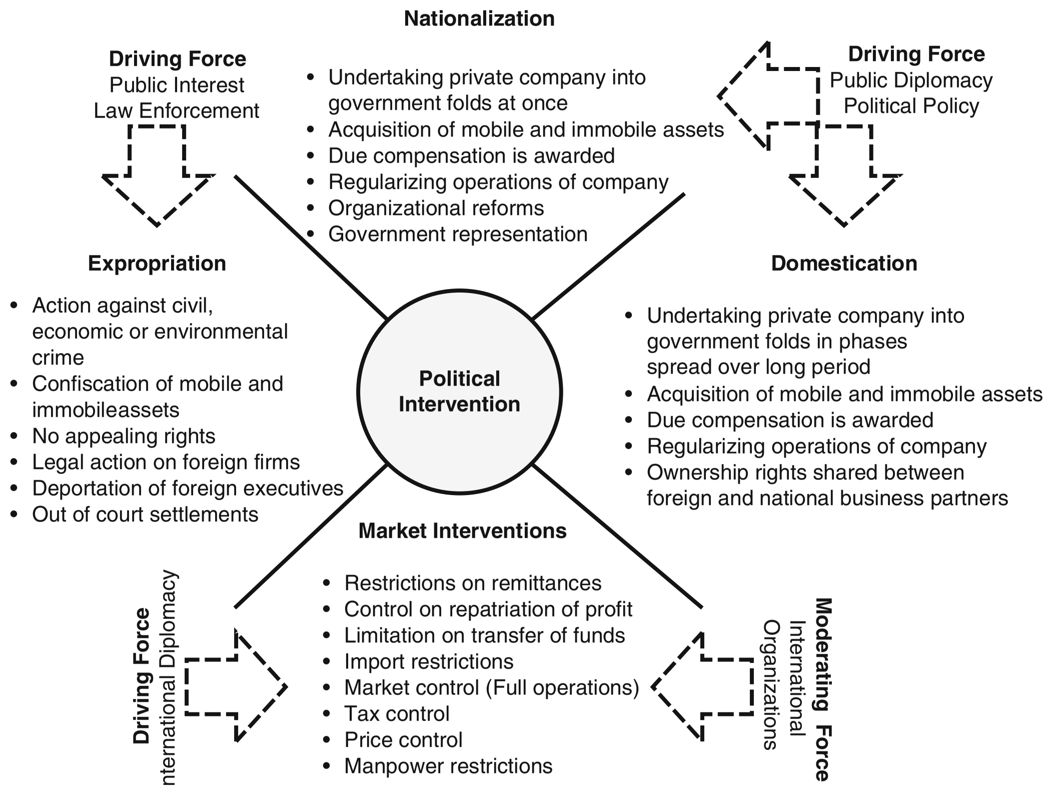

Figure 4.1 Causes and effects of political interventions on international business

firm-specific variables that can affect the firm's micro political risk profile, and advance an innovative methodology by which executives can address these variables and develop an assessment of their firm's micro political risk (Allon and Herbert, 2009).

Political intervention may affect the marketing-mix functions of a firm in the host country in several ways. The intervention may be in the form of local content law, technology content, and restrictions on the sale of some products, products' functional range, and design of products, useful life, and adaptability to local conditions, patent life, local manufacturing and assembling leading to product strategies of a foreign firm. Political directions may also govern the functions related to transfer pricing, price ceiling and price floor, price contracts, price paid for local raw materials and price paid for imported raw materials to be used in production in the host country. Besides, the activities of distribution and product retailing may also be subject to political interventions in many developing countries. Advertising and communication is another important area of a multinational firm that is affected by political interference in a country. Of these, local production of commercials, local artists, type of message, type of copy, availability of media, and time restrictions on the use of certain media are significant political interventions faced by a foreign firm. The types of political interventions affecting business in the country are shown in Figure 4.1.

Expropriation, domestication, and nationalization

The governments of developing countries generally intervene directly in the operations of foreign firms engaged in business in order to pursue the special interests of their country. Some common forms of political intervention include expropriation, domestication, and nationalization; exchange control; import restrictions; market control; tax control; price control; and labor restrictions.

Expropriation is one of the most stringent and pervasive political interventions a foreign firm may face in a host country. It may be described as official seizure of foreign property by a host country whose intention is to use the seized property in the public interest. Such intervention is recognized by international law as the right of sovereign states, provided the expropriated firms are given prompt compensation, at fair market value, in convertible currencies (Eiteman and Stonehill, 1979). The act of expropriation without offering any compensation to the foreign or local firms may be described as *confiscation*.

In legal terms expropriation occurs when a government takes over property for a purpose deemed to be in the public interest, even though the owner of the property may not be willing to sell it. Any interest in land, plant and machinery and/or value additions thereof, such as permanent constructions, may be expropriated. The business's capital may also be subject to expropriation in many countries. However, technology can serve as a defense against expropriation, if the technology of the enterprise cannot be transferred to or duplicated by the host country or despite transfer of technology it cannot be made operational by the expropriators. Further, if a firm is not holding an independent status in the host country and is vertically integrated with the parent firm wherein the supplies for production or the market for the product is controlled by the parent firm located elsewhere, such firms an unlikely to be targeted for expropriation.

Domestication is another form of expropriation, which may be also be conceived as creeping expropriation. In this process of political intervention the controls and restrictions placed by the host country authorities on the foreign firm gradually reduce the control of owners. Domestication is a slow process of nationalization, and a foreign firm may lose its control in all financial, operational, and management areas over a period of time. Domestication involves several measures, including gradual transfer of ownership to nationals, promotion of a large number of nationals to higher levels of management, greater decision-making powers accorded to nationals, more products produced locally than imported for assembly, and specific export regulations designed to dictate participation in world markets.

Traditionally expropriation referred to the seizure of property by the host government, for example, forced *nationalization* of assets. In recent years, more extensive definitions of expropriation have appeared, such as creeping expropriation, regulatory takeover, and measures tantamount to expropriation, which can sometimes be used as a strategy against government measures that might simply dent a foreign investor's profitability. The clause on 'measures tantamount to expropriation' has been particularly controversial in the investment-related details of NAFTA. The clause argues that expropriation may not necessarily be a taking over of the companies in the public interest as it may be unreasonable and not justify the political interference. However, regional trade agreements stress on investor rights to protect the undue losses to the investing companies in the host country. The governments of countries (Canada, USA, and Mexico) in NAFTA are required to compensate the investor for the full market value of the property.

On the contrary, *nationalization* may be described as taking over of assets into state ownership. The process of nationalization refers to a transfer of an entire industry within the country from private to public ownership with no discrimination as to the foreign or local ownership of firms. This may be explained as policy of bringing a country's essential services and industries under public ownership. It was pursued, for example, during 1945–51 by the Labour Government in the UK, which nationalized a number of important industries, including coal, steel, and rail transportation. Assets in the hands of foreign governments or companies may also be nationalized; for example, Iran's oil industry and US-owned fruit plantations in Guatemala during the 1950s. The Communist states of Eastern Europe nationalized all industry and agriculture in the period following the Second World War.

In non-Communist countries it has been common practice to compensate the owners of nationalized properties, at least in part; however, in the Communist countries, where private ownership is opposed in principle, the owners are not compensated. Nationalization of foreign properties has occurred, especially in underdeveloped nations, where there is resentment at foreign control of major industries. Instances include Mexico's seizure of oil properties owned by US corporations (1938), Iran's nationalization of the Anglo-Iranian Oil Company (1951), the nationalization of the Suez Canal Company (1956) by Egypt, and Chile's nationalization of its foreign-owned copper-mining industry (1971). The government of India nationalized fourteen major private commercial banks in 1969 and six more in 1980. Nationalization forced commercial banks increasingly to meet the credit requirements of the weaker sections of the nation and to eliminate monopolization by vested interests of large industry, trade, and agriculture. However, a key issue in nationalization is whether the private owner is properly compensated.

Exchange control

In addition to expropriation and domestication, there are various other means of government intervention in foreign enterprise, usually in the form of legislative action or a decree enacted in the national interest. Many countries exercise restrictions on foreign exchange in order to discourage the free and flexible operations of foreign firms. Such strategy may be described as a government policy designed to restrict the outflow of domestic currency and prevent a worsened balance of payments position by controlling the amount of foreign exchange that can be obtained or held by domestic citizens. The process of exchange control emerges as a system of controlling inflows and outflows of foreign exchange, with devices including licensing multiple currencies, quotas, auctions, limits, levies, and surcharges.

Many countries face serious deficits in their balance of payments and are short of foreign exchange. Hence they restrict the use of foreign convertible currency according to their priorities. Foreign firms may be low on that priority list and have difficulty getting foreign exchange for needed imports or profit repatriation. Exchange control regulations are generally introduced by the monetary authorities of governments to control the flow of money. The restriction on the free use of foreign exchange is generally imposed by the countries having imbalances in the import/export ratio, leading to problems in the balance of trade. This type of exchange control may also be an effort to encourage domestic industry. The exchange control measures have two major consequences on foreign business in terms of repatriation of profits and capital to the parent company at will and free imports of raw materials, machinery, spare parts, and the like from other destinations for operating purposes.

Import restrictions

Import restriction is the primary type of political intervention to support the native industries. Consider a foreign apparel manufacturing company traditionally importing certain synthetic yarn and dyes from the parent company. If the host country places restrictions on imports, the company may be forced to depend on local sources of supply for these new materials. Import restrictions would help the country to encourage domestic industry as a matter of industrial policy; however, such measures tend to jeopardize the functions of foreign business.

Globalization and the emergence of the new international trade order with the emergence of the World Trade Organization (WTO) have reduced the occurrence of import restrictions in many countries. Until 2004 the Chinese government had authorized only a limited number of companies to act as agents for restricted import and export of steel, natural rubber, wool, acrylic fibers, and plywood. After joining the WTO in 2001, the Chinese government is gradually relaxing import restrictions and the above products have been opened for free trade as an obligation of China's WTO agreements. Import restrictions in a country are also subject to cultural and religious requirements. In Kuwait imports of alcoholic beverages, pork and bacon products, and pigskin are banned on cultural and religious grounds.

The general agreements on WTO have emphasized the elimination of import restrictions on all competitive goods and services. Accordingly, in the member countries of WTO, tariffs on all agricultural products are now bound. Almost all import restrictions that did not take the form of tariffs, such as quotas, have been converted to tariffs, a process known as *tariffication*. This has made markets substantially more predictable for agriculture. Previously more than 30 percent of agricultural produce had faced quotas or import restrictions (World Trade Organization, 2004a).

However, the intervention of the WTO in persuading member countries to eliminate import restrictions had mixed impact in the trade environment of Romania. The development of textile and clothing exports has benefitted from link-ups between Romanian production units and companies in France, Germany, and Italy. The external environment has also become more favorable due to the elimination of long-standing import restrictions by the European Union and Norway; Canada and the United States are two potentially large markets, but they still restrict imports from Romania (World Trade Organization, 1999). The non-tariff barriers imposed by a country also discourage firms to import the goods. The country's quotas and tariffs limit the firm's ability to import equipment, components, and products, forcing a higher level of local procurement than it may require.

Market control

The government of a country sometimes imposes market control to prevent foreign companies from competing in certain markets. Market control may be imposed by a country at various phases of the business operations of a foreign form. If allowed to enter the country, the firm may be restricted from entering certain types of industries. It may be prohibited from acquiring a national firm. It may not be allowed to have total ownership but may be required to enter a joint venture with a national firm. The firm may also be restricted by the national government to choose its areas of operation and sell its products.

It has been observed that the Japanese government indirectly discourages foreign firms from conducting business in the country. Until the end of the twentieth century, Japan prohibited foreign companies from selling sophisticated communications equipment to the Japanese government. Thus, AT&T, GTE-Sylvania, and ITT could perform only in a limited way in Japan. Besides the operational controls in the market, one of the most common controls that the foreign firms may face is price controls, which limits the profitability of foreign firms in inflationary situations in the host country. Gerber left Venezuela because a decade of price controls prevented the profitable operation of the company. Other regulations may affect advertising or other marketing practices of the firm.

Sometimes conflicting political ideologies also enable countries to exercise market controls without strong economic arguments. An example in this context may be the Arabian countries that boycott companies doing business with Israel. The Arab states had not accepted Israel's right to exist and hoped that the boycott eventually would bring about its collapse, which does not seem to be realistic. In April 1998 China ordered all direct-sales operations to cease immediately. The ban outlawed the direct-sales operations of companies including Avon, Amway, Mary Kay Cosmetics, and Sara Lee. However, China later announced provisional plans to phase out the ban on direct-selling practices of multinational companies imposed by the year 2003. The elimination of such a ban on direct sales is contingent upon the development of direct-selling regulations. The Chinese government decided to lift the ban on direct selling after the US support it in WTO negotiations.[1]

Tax and human resources controls

The governments of some countries may also impose tax control by means of excessive and non-traditional taxes on foreign firms. For example, a new form of tax imposed on foreign firm has been an excessive levy on volume of production, for which no precedent is known. Imposing such taxes on foreign business houses may be because it is an additional source of revenue to meet the fiscal deficit of the country that does not put pressure on citizens, or to construct a tax barrier as a retaliatory measure to protest against the international policies or general dissatisfaction in diplomatic relations with other countries. In many countries like China, labor unions play significant role in political decisions and have great political clout. In such countries labor restrictions are an effective form of government intervention. Traditionally, labor unions in America have been able to prevent layoffs, plant shutdowns, and the like, even when business could not afford to meet their demands.

Political and residual risks in international business

Political, economic, religious, and other tensions can shift at a moment's notice and disrupt business operations for exporters, traders, investors, banks, and other organizations involved in international commerce. Companies can be subject to the discriminatory actions – or inaction – of foreign governments and third parties, potentially leading to forced shutdowns, relocations and other unexpected expenses. The political risks in international business are developed with the illegitimate use of political power. The way political power is exercised determines government action and the degree of risk that threatens a firm's value. For example, a dramatic political event may pose little risk to a multinational enterprise, while subtle policy changes can greatly impact a firm's performance. Firm-specific political risks are risks directed at a particular company in reference to its country of origin, nature of activities in the host country, social and economic goals etc., and such risks are by nature discriminatory. The risks specific to firms may be concerned with the governmental policies as well as instability in the political system governing the country. The commonly expected political risk situations in a country are shown in Figure 4.2.

One of the major political risks is the unnoticed changes in the policies of the government that are largely induced by the inefficiency of internal governance, as shown in Figure 4.2. The policy risks broadly include administrative controls on prices, investments, and transfer of funds that affect the international business in the country. Besides, policies on nationalization and domestication of identified industry segments and changing macroeconomic policies of the country carry major risk for the international business. Political instability, civil unrest, bureaucracy, and corruption all contribute to the inefficiency of the internal governance in a country, which seriously affects the investments, manufacturing, and marketing operation of multinational companies intent on doing business in the destination country. International diplomacy also affects the exchange rates, investments, and international trade at the destination country.

Political risks may be identified by analyzing contextually the political and social system of a country, its degree of openness to international trade, the efficiency of its product markets, its labor market dynamics, and its capital markets. By critically examining these contextual areas, companies can map the business contexts of any country and match their strategies to each of these contextual points, They can take advantage of the strengths of destination markets. However, firms need to weigh the initial benefits against the anticipated costs (Khanna et al., 2005).

On the other hand, country-specific political risks are not directed at a firm, but are countrywide, and may affect a firm's performance. An example in this context may be the decision of the government to forbid currency transfers on the outbreak of a civil war within the host country. Political risks also include government risks and stability risks. Government risks are those arising from the policies of a governing authority, in reference to the use of authority. A legitimately enacted tax

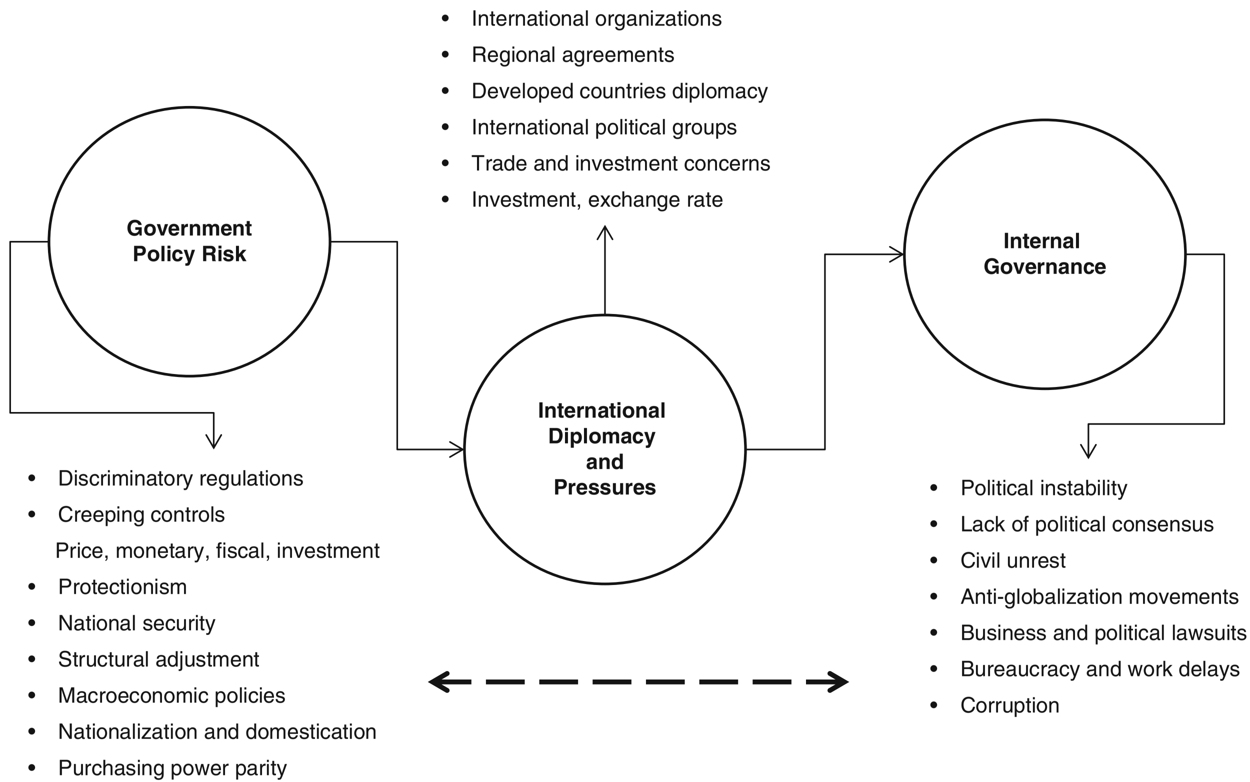

Figure 4.2 Factors affecting political risk

hike or an extortion ring that is allowed to operate and is led by a local police chief may both be considered as government risks. Indeed, many government risks, particularly those that are firm-specific, contain an ambiguous mixture of legal and illegal elements. Instability risks, on the other hand, arise from political power struggles. These risks could be the conflicts between members of a government fighting over succession, or mass riots in response to deteriorating social conditions. The country-level risk in reference to government policies and political instability may vary in its intensity.

Besides the apparent political risk, a foreign firm may also be exposed to a bundle of different risks. Many of these risks are not unique to the assets owned by a firm but reflect broader possibilities, such as that the stock market average will rise or fall, that interest rates will be cut or increased, or that the growth rate will change in an entire economy or industry. Residual risk is what is left after the firm takes out all the other shared risk exposures. An exposure to such risk can be reduced by the firm through strategic diversification decisions. A political risk assessment (PRA) is necessary for foreign firms in order to identify countries that may turn out to be unsafe tomorrow and to identify the actual situation in the countries avoiding any bias. For example, doing business in Vietnam and Haiti now may not be as unsafe as was felt earlier.

Assessing the political risk of a country may also provide a framework to identify the degree of political risk in selected countries for a firm's entry. PRA may be assessed through a number of methods. In one of these, an executive or a team of executives is advised to visit the country in which investment is being considered. Preliminary market research is done to support the visit of the executives in the country. Upon arrival, there are usually meetings with government officials and local businesspersons. This approach is known as a *grand tour*. The results emerging out of this approach may be very shallow, representing only selected pieces of information and therefore possibly camouflaging undesirable aspects of the market.

The other methods rely on the advice of an outside consultant or a person deemed to be an expert. Usually such persons are seasoned educators, diplomats, local politicians, or businesspersons. The capability and experience of the advisor are factors determining the quality of this report. This approach of political risk assessment, by its very nature, is termed *the old hand*. In another similar approach, known as the *Delphi technique*, a few selected experts are asked to share their opinions independently on a given problem, in a form that can be scored in order to produce a statistical distribution of opinion. The experts are shown the resulting distribution and given the chance to alter their original views. In the process of the study the experts are given the task of rating different political factors such as the stability of government, internal and external security issues of the country, and existing political conflicts. The process is repeated several times and then the results are synthesized. Based on the final expert opinion, the firm takes an entry decision.

In addition to these methods many firms conduct an inquiry into the risk factors in a country using *quantitative methods*. In such studies the statistical analysis is done on the basis of time series data collected on identified variables. Multivariate analysis, correlations, and trend analysis are conducted to measure the magnitude and direction of political risk in a country. The foreign firms make a decision on the basis of the trend of political risk in a country and its magnitude, which emerges out of the quantitative studies. However, while assessing political stability, the focus should be on the legitimacy of state authority, the ability of that authority to impose and enforce decrees, the level of corruption that has spread through the system of authority, and the degree of political fractionalization that is present. Where economic policy is concerned, the focus would be more along the lines of the degree of government participation in an economy, the government's external debt burden, and the degree to which interest groups can successfully obstruct the decision-making process.

As the global economy has recovered after the initial twenty-first-century economic recession during 2007–12, multinationals have reverted to weigh their options for investment in lower politico-economic risk destination countries. Companies look for positive impact destinations where government policies are pro-international business and no contradictory economic trends are observed. It is not easy to locate such destinations on the global map for doing political and economic risk-free manufacturing business operations while potential emerging markets are themselves active –Brazil is planning to expand its business across many countries, and Indonesia is attempting to pull down inflation by keeping interest rates low. Companies need a way to cut through political chaos and find out the right options to optimize benefits while minimizing risk.

Business consulting organizations prepare a matrix to select a likely destination on the basis of their macroeconomic conditions and foreign investment policies. Such indicators serve as a practical guide for determining potential growth destinations where governments are encouraging foreign investment and developing pro-business opportunities.

Globalization and its impacts have profound implications for a broad range of issues important to the funding community. These issues range from sustainable use of the world's resources and the protection and preservation of the environment, to the need to improve living standards, safeguard human rights, promote and protect cultures, and ensure democratic and responsive global governance. While the idea of globalization has only recently captured public attention, globalization has been occurring for centuries. Globalization of market opportunities was observed as the outgrowth of the above factors, and the scope of such marketing opportunities has increased with the continued deregulation of significant functional sectors, including financial services, the leisure industry, information technology etc.

As multinational companies of the Western hemisphere try to penetrate the developing regions and bottom- of-the-pyramid market segments in their search for growth, they have no choice but to compete in the big emerging markets of Brazil, Russia, India, China, Indonesia, and South Africa. The dynamism for globalization has been spread by political thinkers and business managers along with national political perspectives of building diplomatic relations with emerging markets. The first is enabled by reduction in trade and economic barriers across countries in the world and equalizing the power play among nations, and the second is accelerated by giving more space for multinational companies to do business in far-reachable markets. Breaking the social, cultural, economic, and political barriers for moving the business into various destination markets is a tough challenge for multinational companies. Though globalization of business has become the lifeline of most companies, creating a sustainable corporate strategy in tune with local market conditions is difficult. Thus, most companies tend not to stay competitive in the local markets and lose their market share to low-cost customer-centric companies.

Legal frameworks

In addition to the political environment in a country, the legal environment – comprising local laws, civil and criminal laws, and trade regulations – also influences the operations of a foreign firm. It is important for a foreign firm to know the regulatory provisions in each market as this legal environment constitutes the rules of the game'. At the same time, the firm must know the political environment because this determines how the laws are enforced and indicates the direction of new legislation. Thus the legal environment of international marketing has a dyadic relationship with political and regulatory systems in a country. Accordingly, it is necessary for an international firm to acquaint itself with host country laws, international law, and domestic laws in each of the firm's foreign markets.

Multinational enterprise in its global exercise must cope with widely differing laws. The legal barriers in most of the countries include anti-dumping laws, tariff structures, horizontal price fixing among competitors, market division by agreement among competitors, and price discrimination. Hence, the international firms should also understand the arbitration procedures as an alternative to legal recourse.

Traditionally, two types of legal systems may be distinguished, as common law and code law. *Common law* is based on precedents and practices established in the past and interpreted over time. Common law was first developed in England, and most of the Commonwealth countries follow this system. *Code law* is based on detailed rules for all eventualities. Code law was developed in the Roman empire and is popularly practiced by a number of free world countries, such as Italy, France, Germany, Mexico, and Switzerland.

The distinction between common law and code law may be described with an example in context of the right to proprietary issues. For example, trademarks in a country exercising the common law would largely depend on the length of its use by the company. Under the common law the judicial decision would favor the party actually using the trademark on its package and in its advertising campaign, despite not having formally registered the trademark. On the other hand, according to code law, the right of property would rest with the party that has actually registered the trademark.

Business firms encounter major problems when a country respects more than one legal system and generates conflicting values. If a business contract contains clauses specifying the jurisdiction, stipulating which legal system should be used to settle disputes, the matter can be settled accordingly. However, in the absence of any such a provision disputes cannot be settled by choosing a legal system or a country in particular. An example may be cited of an accident of leak of poisonous gas that occurred in the chemical plant at Bhopal (India) of Union Carbide, a US company, causing over 2,000 casualties in 1984. In this situation, the Indian government would have preferred to settle the issue of compensation to the survivors in a US court of law than in Indian courts as the decision in Indian courts would be time-consuming, while additionally the American judiciary is considered to be liberal in awarding such strictures on humanitarian grounds. Simultaneously, Union Carbide management might have preferred to get the issue settled in the Indian courts in its own economic interest. However, it took over a decade to settle the compensation issues to the survivors of the Bhopal tragedy between the Government of India and the company, and it was settled as an out-of-court compromise (Hull et al., 1995).

Tariff barriers

Host country laws affect the business operations of a foreign firm. Such regulations may adversely impinge on the entry of a firm into the host country and may appear in many forms, including tariffs, anti-dumping laws, export/import licensing, investment regulations, legal incentives, and restrictive trading laws. A tariff may be defined as government levies on exports and imports. Tax on exports may be determined as export duty while the tax on imports is termed import duty or customs duty. The objective of imposing an export duty for a country is to discourage selling overseas in order to maintain adequate supplies at home. A heavy import duty is levied in order to protect home industries from penetration by cheap imports, to gain a source of revenue for the government, and to prevent the dilution of foreign exchange balances. A country may decide to impose tariff barriers for various reasons, as mentioned below:

- Control the outflow of national money
- Protect home market products and services
- Equalize cost of production
- Discourage low-cost imports that affect market stability and quality of goods and services in the home market
- Ensure better home products and services with available technology and manpower
- Wage and employment protection
- Implement anti-dumping measures
- Bargain and retaliation on tariffs
- Protect the infant industry and national security in the home country
- Seek adjustments in terms of trade and fiscal deficits through optimal tax levies.

A country may have a single tariff system for all goods from all sources, which may be termed a *unilinear* or *single-column tariff*. Another category of tariff may be described as a *general-conventional tariff*, which applies to all countries in general except the nations that have signed special tax treaties with a particular country or a group of countries. A tariff that is determined on the basis of a tax permit may be classified as *special duty*, and a fixed percentage of the value of may be levied as *ad valorem duty*. It may sometimes happen that both special and *ad valorem* duties are levied in a country as a combined duty.

The ways to control the penetration of foreign goods and services in the home country without imposing financial compensation or taxes may be categorized as non-tariff barriers. Such non-tariff barriers include quotas, import equalization taxes, road taxes, laws giving preferential treatment to domestic suppliers, administration of anti-dumping measures, exchange controls, and a variety of *invisible* tariffs that impede trade. These measures are comprehensively discussed as under:

- Specific limitations on trade comprising quotas, licensing, proportion restrictions of foreign goods to domestic goods, minimum price limitations on import goods and embargos that restrict the import of specific products from restricted countries.
- Customs and entry procedures include valuation of imports, anti-dumping practices, tariff classifications of imported goods, imposing a complex and lengthy documentation procedure involving bureaucratic requirements, with a comprehensive service-by-service fee structure.
- Standards include undue discrimination towards health, sanitation, hygiene, safety, and imposing higher standards on imported goods than on domestic products, applying packaging, labeling, and marketing standards of the country to imported goods in an excessively stringent and discriminatory way.

Besides the above *non-tariff barriers*, a country may directly participate in trade activities with an objective to discourage imports as well as participation of foreign firms in the home country in any manner (Cao, 1980). Under such measures, the government gets involved in trade activities though procurement policies favoring the products of the home country over the products of other countries. The government may also impose export subsidies in terms of tax incentives to domestic firms and implement *countervailing duties* that may be described as taxes levied to protect domestic products from the imported products that have been given export subsidies by the exporting country's government. A country may also proceed to various types of other charges levied on imports to make them less competitive against domestic goods.

Such non-tariff measures include a prior import deposit requirement, administrative fees, supplementary duties, and other variable levies.

Anti-dumping laws

The act of exporting a product by an international firm at a price lower than the price it normally charges on its own home market is defined as dumping the product. Dumping is a type of pricing strategy for selling products in foreign markets below cost, or below the price charged to domestic customers. Such a strategy is adapted to capture a foreign market and to damage rival foreign national enterprises. The legal definitions are more precise, but broadly the WTO agreement allows governments to act against dumping where there is genuine (material) injury to the competing domestic industry. In order to do so the affected country's government shows that dumping is taking place, calculates the extent of dumping by determining how much lower the export price is compared to the exporter's home market price, and shows that the dumping is causing injury or threatening to do so. The subsidies that require recipients to meet certain export targets, or to use domestic goods instead of imported goods are prohibited under the WTO agreement because they are specifically designed to distort international trade, and are therefore likely to hurt other countries' trade (World Trade Organization, 2004b). The agreement further specifies to member countries that a countervailing duty, which is parallel to an anti-dumping duty, can only be charged after the importing country has conducted a detailed investigation similar to that required for anti-dumping action. The argument against dumping is largely based on price differentials that are intended strictly to weaken competition and over the long run uproot native products from the market. Hence, all countries pass anti-dumping laws to secure their home markets from any undue foray by foreign firms.

Though dumping is commonly not regarded as a healthy business strategy for foreign forms, there are sometimes good management reasons for encouraging it. A typical case describing the positive side of this strategy may be to survive in a large competitive market by selling at very low prices. Another case is when a company has overproduced and wants to sell the product in a market where it has no brand franchise to protect. However, if the firms have implemented dumping, they can well reverse it. The 'reverse dumping' refers to the less-common practice of selling products at home at prices below cost. This would be done in extreme cases where the share at home needs to be protected while monopolistic market positions abroad can be used to generate surplus funds. Regardless, dumping is considered to be illegal since it is destructive to trade, and competitors can take an offender to court to settle a dumping case. The usual penalty for manufacturers whose products are found to violate anti-dumping laws is a countervailing duty, an assessment levied on the foreign producer that brings the prices back up over production costs, and also a fine.

Import licensing

Many countries have laws on the books that require exporters and importers to obtain licenses before starting international deals. Import licensing is imposed by nations to control the unnecessary purchase of goods from other countries. Such restrictions would help the government save foreign exchange balances for other important purposes, such as the import of pharmaceuticals, chemicals, and machinery. India, for example, has strict licensing requirements against the import of cars and other luxury goods. A member country of WTO may restrict imports of a product temporarily (take 'safeguard' actions) if its domestic industry is injured or threatened with injury caused by a surge in imports. Here, the injury has to be serious. Safeguard measures were always available under the former General Agreement on Tariffs and Trade (GATT) (Article 19). However, they were infrequently used, some governments preferring to protect their domestic industries through 'grey area' measures using bilateral negotiations outside the aegis of GATT, persuading exporting countries to restrain exports 'voluntarily' or to agree to other means of sharing markets. Agreements of this kind were reached for a wide range of products, for example, automobiles, steel, and semiconductors (World Trade Organization, 2003).

It has been envisaged in the new directives of the WTO agreement that member countries must not seek, take or maintain any voluntary export restraints, orderly marketing arrangements or any other similar measures on either the export or the import side. The bilateral measures that were not modified to conform to the agreement were phased out at the end of 1998. Countries were allowed to keep one of these measures an extra year (until the end of 1999), but only the European Union made use of this provision, for restrictions on imports of cars from Japan. This agreement was referred to as *safeguards*.

The agreement sets out the criteria for assessing whether 'serious injury' is being caused or threatened, and the factors that must be considered in determining the impact of imports on domestic industry.

When imposed, a safeguard measure should be applied only to the extent necessary to prevent or remedy serious injury and to help the industry concerned to adjust. Where quantitative restrictions (quotas) are imposed, they normally should not reduce the quantities of imports below the annual average for the last three representative years for which statistics are available, unless clear justification is given that a different level is necessary to prevent or remedy serious injury. Such import licensing systems are subject to disciplines in the WTO. The Agreement on Import Licensing Procedures says import licensing should be simple, transparent and predictable. For example, the agreement requires governments to publish sufficient information for traders to know how and why licenses are granted.

Part II
Preparing Destination Markets

5
Market Research and Organizational Design

Companies often drive innovation to bring change in the market for competitive advantage. Breakthrough innovations reduce the cost and time of manufacturing a product or delivering a service with the desired quality and competitive advantage. One of the most challenging issues in the process is to conduct appropriate market research on tangible and intangible factors like market change management, improvement in the products and services, and enhancing customer values with focus. Most companies conduct market research to develop competitive strategies for reducing costs and optimizing profit. This chapter examines both informal and formal methods of market research and the evidence that experienced marketers will use both research modalities. The chapter also addresses the issues critical to quality and concerning voice of customers. It indicates that decision makers who listen directly to dissatisfied or lapsed customers and pair those conversations with formal data develop a more visceral idea on consumer choices and on designing dynamic marketing campaigns. Among other issues the taxonomy of market research, statistical research methods, the framework of international marketing research, organizational design, and human resources management are also addressed in this chapter.

Globalization is the strongest impetus for companies intending to expand their business from global marketplace to bottom-of-the-pyramid, or vice versa for local companies going global. Staying global and abreast of market developments requires companies to engage in continuous market research to analyze demand, supply, consumer behavior, pricing, competition, and innovation and technology dynamics. As companies invest in building global strategies to gain competitive advantage, the need to understand consumers in new destinations continuously increases. Marketing research is the one and only conventional mechanism through which companies understand their current as well as potential customers. Companies are in a race to enhance their outreach and contemplate competitively advantageous destinations by facing the challenge of utilizing varying market research results for domestic and international markets. Hence, companies must strengthen and equip their organizational platform to develop strategies arising from changing market research outcomes. In an effort to become customer-centric, companies should develop market research design and implementation following appropriate research studies. Several factors represent the underlying market challenges, and efficient companies address them in order to conduct market research across destinations (Young and Javalgi, 2007). Systematic market research must pass through the following major stages:

- Setting clear objectives for the market research
- Assessing market information needs, measuring marketplace dynamics in reference to demand, distribution networks, price response, competition, and consumer behavior
- Conducting data management through storing, retrieving, and displaying the data mechanism
- Analyzing and interpreting market information
- Evaluating and assessing the appropriateness of the market research.

Market research can be designed successfully to draw actionable conclusions by developing both backward and forward assessments. By determining the research propositions or expected results, companies need to establish suitable research methods. The market research results should guide a company's competitive strategies and ways to develop sustainability in the marketplace (Barabba, 1990). Japanese companies build up information on customer needs or market response to a new product, and meet and talk directly with retailers, wholesalers, distributors, and brokers to gain deep knowledge of their concerns. Companies in Japan thus avoid dependency on market research professionals and driving through the research methodologies favored in Western countries. Such market research practices constitute a major reason for the success of Japanese corporations in global markets as they use hands-on market research, which is direct and cost- effective in performing and retrieving outcomes (Johansson and Nonaka, 1987).

Today, competition is increasing in the markets. It has therefore become necessary to understand the internal and external dynamics of an inter-product and inter-organization marketing-mix strategy in optimizing profit and volume of sales. Consumer-oriented factors constitute the external dynamics of marketing. A marketing manager has to explore all possibilities of developing an effective plan for launching and sustaining a product in the market. To do so he needs a clear perspective based on the information analyzed. This necessary step of information collection for important decision-making variables and an explorative analysis forms the core of marketing research. It is a tool used in formulating marketing strategies and for reforming plans based on extensive feedback. Marketing research, hence, may be defined as the systematic gathering, recording, and analyzing of data on the variables of marketing goods and services.

The globalization effects and shifting marketing strategies of multinational companies have opened up many avenues for future research. New research studies can be explored in the area of cognitive dimensions affecting shopping arousal, marketplace attractions, inter-personal influences, and sales promotions driving the behavior of urban shoppers. Research can also be directed to related areas of changing market taxonomy, shopping ambience, and the impact of customer centric-marketing strategies on consumer behavior. Future research could examine issues related to customer perceptions of quality, and retailer or dealer performance. Identifying the variables that have an intervening effect on the quality/performance relationship may provide both academics and managers with potentially compelling answers to the question of why customer-oriented quality improvement programs sometimes do not succeed (Rajagopal, 2009). The market orientation of a firm has significant influence on the behavior and attitudes of its sales force, which can be studied in relation to the cognitive and economic factors related to a business firm.

Emerging research perspectives encompassing market expansion include bottom-of-the-pyramid marketing strategies of multinational companies to prevent the defection of customers. Performance of global brands in lo- profile consumer market segments through brand promotions, consumption, and the consumer value chain may be another interesting area of research to be explored in reference to the marketplace in developing countries. The impact of economic variables on shopping arousal and compulsive buying behavior in response to competitive sales promotions may also be considered in reference to the market orientation of a retailing firm. The role of retail competition and demographics in determining promotional response are also potential issues to be pondered over in future research.

Bottom-of-the-pyramid market segments are emerging as the core marketplace for global firms in future. Future research may be directed at measuring the performance of global brands in low-profile consumer market segments and exploring the implications of high transaction costs and coordination problems along the brand promotions, consumption, and consumer value chain. Research in the direction of socio-cultural leverage for global brands in these market segments and co-creation of market strategy by multinational firms in association with local distributors and consumers also need to be pursued. Approaches on market segmentation in reference to value and lifestyle, and personality attributes of consumers need to be examined to determine the possibility of convergence of positive effects of bottom-line marketing strategy with greater loyalty of consumers.

Scope of marketing research

Marketing research is related to factors that are directly involved in the marketing of goods and services, and it includes study of the effectiveness of the marketing-mix, advertising strategies, competition, and consumer behavior. It not only helps in formulating strategies suitable for market intervention but also guides in perspective planning by analyzing formations for future projections. Marketing research is largely carried out on the basis of a consumer market survey, which is conducted by administering structured schedules or questionnaires in person, or mailing them to sample respondents, organizing syndicate discussions, pilot tests, etc. All medium and large-scale companies engaged in consumer products marketing invariably allocate 0.5 to 4 percent of their net resources to conducting marketing research for future planning. Most capital goods-oriented companies invest a larger share. There are many decisions based on marketing research that are analyzed through quantitative or qualitative analytical tools on vital market indicators.

Globalization has pushed innovation, technology, and market research to unimaginable heights and driven companies to develop their strategies to survive and sustain the marketplace competition. In order to capitalize on current and future market opportunities, global, regional, and local companies are rethinking their product research strategies within available resources. The trend in product research in the twenty-first century is leaning towards customer-centric products and services with unique selling propositions. Companies with high competencies on core product design and research activities are coordinating competitive business activities with supply chain partners, scientific research institutions, and centers of excellence for forming strategic alliances and joint ventures. Manufacturing companies are also engaged in implementing open innovation research by evolving customer requirements to fit into increasing global competition. The open research policies of companies promote sharing of knowledge and capacity within the gamut of industry (beyond own organization), stakeholders, and consultants to commercialize the product quickly and reduce development risk. Other areas of product market research may involve the following dimensions:

- Identifying market characteristics
- Marketing-mix research on the 11P elements, comprising product, price, place, promotion, packaging, pace, people, performance, psychodynamics, posture, and proliferation of products and services
- Determining product sustainability
- Innovative product range
- Preferential and profitable positioning of products
- Distribution analysis
- Pricing strategies impact analysis
- Product testing – pilot studies
- Market test analysis
- Tactical and strategic forecasting for price and demand of the product
- Sales trend analysis
- Competition pattern
- Consumer behavior analysis in reference to price, product-mix, and comparative advantages over other products
- Assessment of impact advertising
- Analysis of gender preferences of products, etc.

Product design and research and development is a cycle of continuous improvement over time that moves through stages of product idea generation, product selection, product development, and launch stages, which involve the research process continuously. Market research is also carried out meticulously by companies to select new destinations in reference to modes of entry, to assess political, economic, social, technological, and legal risks, and to explore business opportunities therein. In addition to research and development (R&D), core business activities such as industrial design, product engineering, testing, and market research are carried out by companies to ensure that product innovations are commercially successful. Multinational companies such as General Electrics, General Motors, and Unilever have made substantial investment in product designing and R&D with the objective of extending the market life of products through product extension strategies to gain long-term profitability and future iterations of product development. An increasingly common method for manufacturers in the global business environment is towards developing new products through adapting to open research policies outside the organization involving key partners in business.

Contemporary market research practices are scientifically carried out using effective statistical techniques and interpretation of results to support the development of appropriate strategies. Of these, questionnaire structuring, area sampling, and trend analysis are widely adopted techniques in marketing research. An effective information system would make the marketing research a more analytical, fact-producing and prolific decision-making exercise. The scope for marketing research is very wide and carried out in identifying potential markets as well as determining the marketing-mix. Marketing research scholars argue for many typologies. However, the generally accepted framework is marketing research on both markets and marketing-mix. Marketing research orientation shifts according to different typologies. Motivational research is significant, and it studies the psychographics or qualitative perspectives of customer lifestyle. This is a continuum of new skills and ideas accredited to marketing research concepts and practices. Marketing research thus provides important help to management by supporting decision-making to set objectives, develop an action plan, execute the plan, and control its performance.

The marketing research process

Marketing research has three distinct dimensions that are governed by exploratory, descriptive, and casual approaches. Exploratory studies are based on primary data pertaining to identified samples focusing on a set of objectives. Such studies are generally woven around a hypothesis and attempt to generate new ideas to serve the objectives of the research. Descriptive marketing research tries to describe the magnitude and direction of the problem and develop output for a logical debate on the marketing managers' floor. Companies may conduct market research to explore the potential of their brands among cross-cultural consumers in large global or regional events such as international sport events (World Cup Football, Olympics etc.), book exhibitions, consumer electronics fairs and the like. Such event-based market research is practiced as casual research.

A research plan determining data sources, methodology, tools, sample design, and data collection methods needs to be formulated after setting the research objectives. The data collection process is initiated from primary or secondary or both sources by administering a checklist and questionnaire. The data should then be subjected to appropriate analysis in view of the set objectives, and its findings are presented in a draft report. An international marketing research process in illustrated in Figure 5.1.

Companies must develop their market research proposals in the first instance in reference to the geographic orientation of the market, such as international, regional, domestic, or bottom-of-the-pyramid, as shown in Figure 5.1. It is also necessary for companies to determine how the research results would be used. The research outcome can be used to develop strategic (long-term) policy, a tactical (short-term) approach, or to justify any conformity action with government policies. Market research is commonly conducted to analyze the elements of market-mix comprising the 11 Ps (product, price, place, promotion, packaging, pace, people, performance, psychodynamics, posture, and proliferation), competition analysis, sales growth, and consumer behavior. Market research has a varied taxonomy and is used by companies according to their needs for strategy development. The types of market research include descriptive, exploratory, experimental, and casual or event-based research, and process consultancy.

Descriptive research is commonly conducted on a specific market-related proposition such as product performance, price sensitivity, distributors' needs, or how promotions affect the sales of particular products. This research could be used in order to find out what age groups of consumers are buying a particular brand of cola drinks, whether a company's market share differs between geographical regions, or to discover the most effective strategies of competitors in the marketplace. Companies engage research organizations to conduct exploratory research for a total picture of the business environment at the new destinations. This type of research is also identified as 360° market research, which explains macroeconomic factors, attributes of marketing-mix elements, consumer behavior, nature of the competition, and the market response to innovation and technology. *Exploratory research* offers the companies complete information on the new destinations and helps the companies choose an appropriate mode of entry and the right marketing strategy,

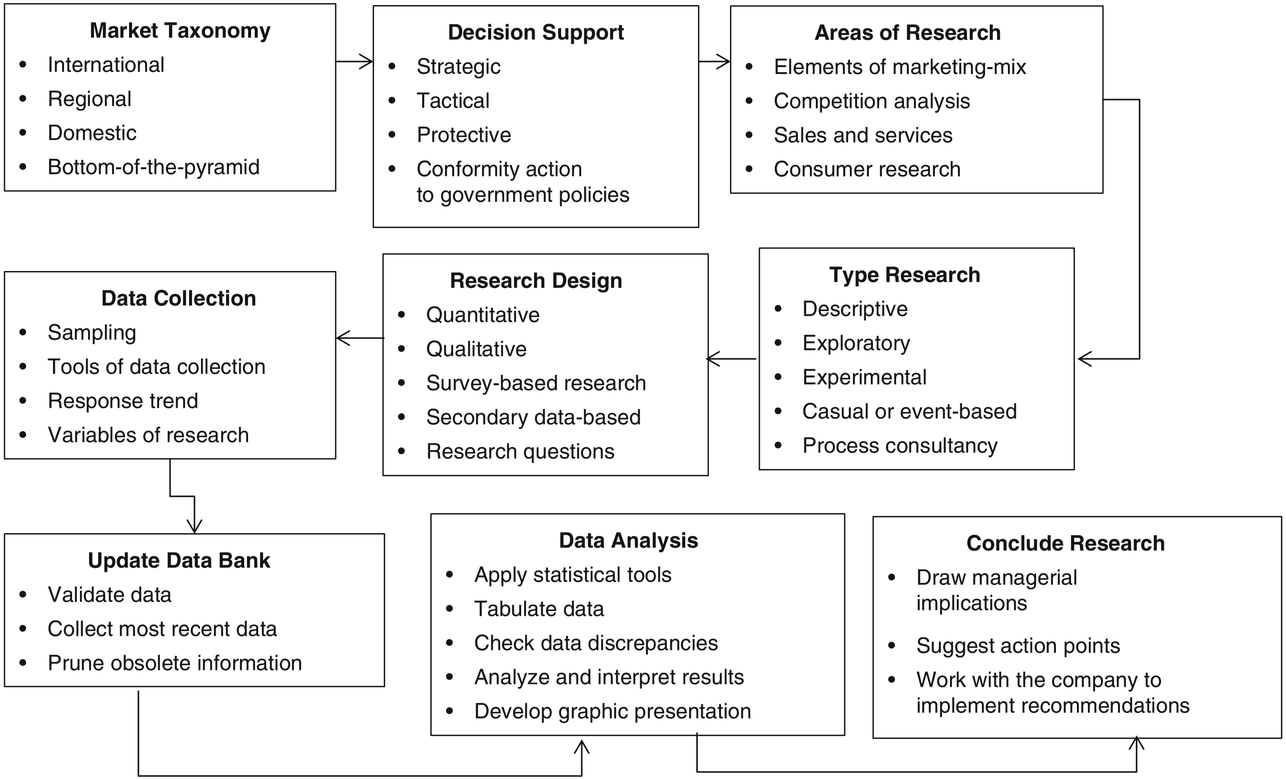

Figure 5.1 An international marketing research process

and develop competitive business plans for sustainable growth in the marketplace. *Experimental research* is conducted by companies to estimate consumer behavior on the new product launch using controlled and non-controlled groups of consumers. Experimental research designs are commonly used for controlled testing of causal buying processes in marketing. The general procedure is that one or more independent variables are manipulated to determine their effect on a dependent variable in reference to product priority and the use/value relationship, consistency in purchase intentions and performance of product, and the magnitude of correlations among the cognitive and marketing variables. The most common applications of these designs in marketing research and experimental economics are towards the analysis of variables of test markets and consumer behavior.

Consumer-centric companies largely prefer *survey-based marketing research* by administering the research instrument to the predetermined population of respondents. Qualitative research is conducted by research organizations to analyze the response of niche respondents, like celebrities whose narrations may influence the mass consumer segment. Survey research has a wide geo-demographic coverage and is representative of the population to a large extent. Surveys are generally quantitative and subject to rigorous statistical analysis. Survey research is a popular method in analyzing consumer behavior, market studies, and health studies. The term ‘survey’ refers to various contextual definitions, but is generally defined as a research tool in which data is collected through a large sample of respondents from a predetermined population. With the emergence of the internet and social media platforms, online surveys are also conducted through Facebook and Twitter among other platforms.

It is necessary for a firm to have a clear perception on its research objectives as these are its guiding tool for the entire process of market research. Suppose a multinational marketer is interested in finding out the potential market for a brand of yogurt in England and Thailand. The issue definition in the two countries will have to be stated differently. In the UK, the yogurt might be primarily perceived by consumers as a healthful and relaxing product to be used prior to retiring. In Thailand, the research would determine if yogurt is considered mainly as an energy food to start the day. After the issue has been defined, the necessary information and the method to obtain it must be determined.

In some cases, the study may be confined to secondary data, that is, published information that has been collected elsewhere. Such data may be available free (for example, government statistics), for a price (for example, syndicated research findings), or through restricted distribution sources (for example, trade association statistics). Making decisions about operating a business in any country specifically requires information pertaining to political, financial, and legal indicators. Besides these, data related to infrastructure, duty and taxes, and general economic variables of the country should also be analyzed. The risk factors associated with operating a country-specific business in the international order are also a prerequisite of international marketing research. Product-specific data is required to assess the market potential and profitability with reference to a specific country or region.

Primary data is collected from the earmarked sample by administering a questionnaire in person or through mail. However, it has been observed that mailing responses are often discouraging and generally do not exceed 20 per cent of sample size. The secondary sources of data include published statistics in internal reports, government publications, periodicals, books, and commercial sources (such as reports of the chamber of commerce, trade associations, quoted data from earlier research work, etc.). The methodology of study comprises the identifying of data sources, research approaches, tools, sampling design, and data collection methods. This part forms the principal component of a research plan.

An observational research approach is commonly used for formulating descriptive marketing research plans. Focus group and participatory approaches are useful exercises for exploratory marketing research that does not have complete perspective results. The survey method has proved to be an effective research approach for exploratory studies in analyzing data. This makes use of quantitative methods leading to a distinctive analysis of factors and future projections. Experimental research attempts to study the impact on the control group through different applications of business models, checks, reformative goals, and qualitative/quantitative analysis methods to infer results. This approach is identified as one of the most scientific methods in relating a research approach with its results. In general, a good marketing research approach is characterized by the following qualities:

- Scientific method
- Originality and creativity
- Potential to use multiple methods for cross-checking the emerging results
- Interdependence on analytical models and data sets
- Cost of research.

A marketing research plan should include these qualities for drawing out effective results and for preparing a useful document to be used for optimizing business propositions in any situation. Market research is an important tool for companies in emerging markets to develop appropriate strategies for stakeholders, suppliers, and alliance partners. The emerging markets of developing countries have responded to the global competition and are rising fast.

However, there are many hidden risks in the rise of potential firms to the global marketplace and the changing intensity of existing market competition. For example, previous observations in various research studies reveal that there were four factors that drove Japanese firms' early export growth, including strong corporate models and cultures, a domestic market isolated from competition, a compliant labor force, and a cohesive, homogenous leadership. But when these firms moved into foreign markets, those strengths became weaknesses. Entrenched in their corporate ways, Japanese managers were too narrow-minded to look for local insights, and they lacked leaders who had international knowledge. They were also unprepared for contentious overseas labor relations and the sophistication and expertise of their global competitors. Thus, to avoid Japan's fate, emerging giants must change their business models, reduce their reliance on protected domestic markets, learn to cope with diverse labor forces, and shake up their leadership (Black and Morrison, 2010).

Contemporary global business models suggest that firms tend to structure themselves as one of four organizational types: international, multi-domestic, global, and transnational. Depending on the type, a company's assets and capabilities are either centralized or decentralized, knowledge is developed and diffused in either one direction or in many, and the importance of the overseas office to the home office varies. International marketing refers to exchanges across national boundaries for the satisfaction of human needs and wants. The various marketing functions coordinated and integrated across multiple country markets may be referred to as global marketing. The process of such integration may involve product standardization, uniform packaging, and homogeneity in brand architecture, brand names, synchronized product positioning, and commonality in communication strategies or well-coordinated sales campaigns across the markets of different countries. The term 'global' does not convey the literal meaning of penetration into all countries of the world.

Many factors determine the nature of competition, including not only rivals, but also the economics of particular industries, new entrants, the bargaining power of customers and suppliers, and the threat of substitute services or products. A strategic plan of action based on this might include positioning the company so that its capabilities provide the best defense against competitive forces, influencing the balance of forces through strategic moves, and anticipating shifts in the factors underlying competitive forces. In outwitting their competitors companies must detect the changes in the strategy game in reference to market players' status in gaining more knowledge, networking, entrepreneurship, and increasing ambitions. The driving forces of competing firms, their organization, and microeconomic environment need to be studied carefully by a company planning to overtake competitors in the business. Further it would be helpful for a company to understand the changing stakes of competitors and the forces affecting such developments. A company can outmaneuver rivals by being more skillful in particular tasks and reshaping the stakes in one or more business arenas. The outmaneuvering of rivals is the core of changing the rules of the marketplace, and strategy for outperforming competitors is largely based on two issues – performance parameters and their assessment.

Market research has proved to be an effective process to understand consumer behavior, attitudinal shifts, and consumer defections to a brand. Market research guides companies in managing short lifecycle products and services, and gaining a competitive lead within a given marketplace environment. Understanding the attitudinal factors of consumers is more complex for companies than the organizational issues in managing competitive differentiation, as illustrated in Figure 4.1. Most consumers develop their perceptions and attitudes using self-reference criteria set by themselves. Such critical self-reference criteria set by consumers in adapting to the differentiation strategies of companies in delivering products and services include trust, corporate image, perceived values, differential advantages, risk factors, and the pros and cons of experimentation. Contrary to the self-reference parameters of consumers, social factors comprising peer influence, referrals, trends and lifestyles, and social dynamics help consumers in developing attitudes towards adapting to changes. However, despite the fact that product differentiations by a company in markets have a certain value, most consumers show initial resistance because of low trust, relative risk, low value for money, and low knowledge on the 4As elements, consisting of awareness, attributes, adaptability, and affordability prospects.

Most companies engage in developing product differentiation for competitive benefit. They move through an evolutionary process from the initial days of the test market to becoming possibly revolutionary trendsetters in the market. For instance, the iPod was introduced by Apple Inc. in 2001 as a technologically differentiated personal audio device against the existing competition of Walkman, a same-purpose gadget by Sony Corporation. It was an evolutionary process, and by 2013 Apple had developed various versions of the iPod ranging from the iPod Shuffle, iPod Nano, iPod Classic, and iPod Touch. This product has driven technology differentiation with glamor and has sustained in the market as a trendsetter, outperforming the conventional gadgets of the market competition. The differentiation process in products or market segments moves through a series of developmental phases that include creativity and innovation, building consumer attitudes, preparing the market, supply chain coordination, and services management. Each phase evolves with unique strategies and commitments, steady growth, and stability, and ends with a revolutionary period of product and market attractiveness and change. The critical task for market management in each revolutionary period is to find a new set of organizational practices that will become the basis for managing the next stage of product differentiation. Fast-growing consumer companies therefore experience the irony of introducing a major change as an advanced solution to consumer issues and competitive advantage to drive sustainable business growth (Griener, 1998).

Sampling techniques

The effectiveness of marketing research largely depends upon the formulation of an appropriate research design consisting of adequate sample size, variables, and proper tools for data collection suitable to the given problem. A researcher will collect substantial background material to conceptualize the research study before formulating a research design for the problem concerned. The nature of the problems varies in consumer marketing research. There are many design conflicts encountered by researchers in evolving a suitable research design, as given below:

- The sample size (quantitative)
- Respondents (classified)
- Information to be sought (issue-specific)
- Time frame (schedule for completion, class-intervals of time to be reserved)
- Tools for information collection (interview, mail, telephone, etc.).

It is essential for a marketing researcher to determine the sample size in terms of number of respondents, regions, products, firms, etc. and the type of respondents to be covered by the study. The classification of respondents according to their income levels, locality, gender, etc. needs to be formulated prior to deciding what questions are to be asked. A synchronized list of issues embodying the questionnaire should be drafted with the aim of retrieving information from the sample respondents. In conducting any research, time management has considerable importance, and hence the time schedule for information retrieval should be decided. In this context, the cutting-edge of time, class-intervals, and time series issues need to be decided on by the researcher. On completing the designing process, the tools for data collection need to be selected. The tools of primary data collection include interviewing, mailing questionnaires, telephone conversations, etc. An integration of all these components makes for a perfect research design.

The sampling process should begin with identifying the area of the study with reference to the section of the population to be interviewed, and the spatial distribution of the respondents. This step sets the demographic and geographic boundaries of the sample design. A researcher cannot develop the sample design until the universe (area) of the study is defined. The size of the sample should be determined carefully through the medium of the questionnaire. To do this, a researcher has to find the answer to two questions in deciding an appropriate sample size, namely, how large should the sample be, and how should the respondents be selected. Statistically, a minimum number of 30 respondents of a homogeneous group is generally significant, whereas the size of a heterogeneous group needs to be decided upon qualitative considerations of the sample, such as purchasing power, the volume of products in demand, behavioral dimensions etc., in the context of a consumer product. Two kinds of anticipated errors often occurring in the sampling process are:

- Administrative errors in carrying out the survey design; these include communication errors, flaws in the interviewing schedule, irrelevance of framed questions, etc.
- Sampling errors due to misrepresented samples, faulty selection of the universe for study and the like.

Hence, sampling needs to be done scientifically taking all error possibilities into consideration.

Sampling techniques

There are many techniques for sampling used in marketing research. However, the correctness of the technique is subject to the nature of the problem identified and the objectives set for the same. The various sampling techniques are detailed below:

- Simple Random Sampling
  This method is very flexible. It is not restricted to any one type of respondent, gender, income level or other variables. The technique allows the researcher to pick sample respondents from the universe of study irrespective of class barriers. However, the minimum and maximum sample size needs to be defined.

- Multi-stage Random Sampling
  This technique is a more complex form of simple random sampling, which prescribes that a researcher divide the universe of the study based on selected variables such as customers by age, by income level, by sex, etc., and select the samples randomly within the categories formed. However, the minimum and maximum sample sizes need to be kept in view while sampling under various categories. It is a complex form of cluster sampling. Multi-stage sampling is carried out in stages using smaller and smaller sampling units at each stage. In a two-stage sampling design, a sample of primary units is selected, and then a sample of secondary units is selected within each primary unit.

  In a multi-stage sample samples are selected sequentially across two or more hierarchical levels, such as that first at the county level, the second at the regional level, the third at the local level, the fourth at the household level, and ultimately at the within-household level. Many probability sampling methods can be classified as single-stage sampling versus multi-stage sampling techniques. Single-stage samples include simple random sampling, systematic random sampling, and stratified random sampling. As discussed above, in multi-stage sampling, the sample is selected in stages, often taking into account the hierarchical (nested) structure of the population.

- Cluster Sample Design
  To make the information collection effective, a researcher can group the respondents into a group or cluster. This can be done demographically or geographically, or both, depending upon the intensity of the data collection and the time schedule thereof.

In cluster sampling, the principal group of the population constitutes the sampling unit, instead of a single element of the population. The population within a cluster is preferred by the researchers to be heterogeneous, however, the means between the different clusters in a given study area should be homogenous. In cluster sampling, only a few clusters are sampled. Hence, in order to draw precision from the estimates, the population should be partitioned into clusters in such a way that the clusters have similar mean values. Each cluster should be a small-scale representation of the total population. A random sampling technique can be used on any relevant clusters to choose which clusters to include in the study. Cluster sampling is often more cost-effective than other sampling designs, as one does not have to sample all the clusters. However, if the size of a cluster is large it might not be possible to observe all its elements.

- Stratified Sampling
  In this process respondents are identified in a hierarchical order and sample size is determined proportionately in each category. For example, the sample respondents can be selected with reference to different age groups. In this exercise, customers have to be classified according to different age groups, and their population ascertained and proportionately sampled using a parameter (say 5 per cent). In this technique, the sample size is mostly adjusted within the strata. A stratified sample is a probability sampling technique in which the researcher divides the entire target population into different subgroups, or strata, and then randomly selects the final subjects proportionally from the different strata. This type of sampling is used when the researcher wants to highlight specific subgroups within the population.

- Purposive Sampling
  This technique is administered according to the choice of the researcher in area, population, and related variables. However, it is necessary to look into the thrust of the research for a sample design to be evolved accordingly. In this method a researcher should logically set the universe of the study and sample variables with reference to the research problem. A purposive sample is a non-representative subset of some larger population, and is constructed to serve a specific need or purpose. A researcher may have a specific group in mind, such as high-level business executives. It may not be possible to specify the population – they would not all be known, and access

will be difficult. The researcher will attempt to zero in on the target group, interviewing whosoever is available. Purposive sampling is also followed through a snowballing approach. A snowball sample is achieved by asking a participant to suggest another respondent who might be appropriate for the study. Snowball samples are particularly useful in hard-to-track populations.

- Quota Sampling
  This is a term for representative sampling in which a researcher prescribes a quota of individuals, product, etc. to be studied and which considerably represents the segments of the universe. In this technique a common error may occur while allotting correct quotas to derive a significant representation of the sample for study. In a quota sample the researcher deliberately sets the proportions of sample levels within the predetermined population. The proportions may or may not differ dramatically from the actual proportion in the population. Sometimes the researcher sets a quota independent of population characteristics.

Structuring a research instrument

A questionnaire is defined as a set of questions related to the research problem, which are used for interviewing a sample respondent. The questionnaire is generally prepared in a structured form with many types of questions. A questionnaire may include the following sets of questions:

- Long descriptive questions
- Two questions in one
- Multiple choice questions
- Closed and open-ended questions
- Indirect questions
- Direct questions
- Attitudinal questions.

Open-ended questions are difficult to codify for analysis. However, they could generate a substantial input for formulating descriptive cases and observatory analysis. Multiple choice questions have the advantage of easy coding and computerized analysis, but at the same time they limit the scope of response. Direct questions are posed to get to know the viewpoints of the respondents exclusively, while indirect questions attempt to measure the logical framing of responses and in cross-examining responses.

Tools of data collection

Research tools play an important role in managing information during fieldwork. Data collection is a process that encounters many problems while administering the questionnaire to potential respondents. Hence, a wise researcher should always pre-test the questionnaire in a pilot survey. Data collection may be carried out through the following tools in order to ensure substantial information flow into the research. They are:

- Personal interview
- Mail survey
- Telephone interview
- Permanent mail panels
- Observation.

A substantial data flow can be generated in field research through personal interviews as this facilitates the documentation of expanded responses to questions posed, thus providing scope for more detailed information for analysis. On the other hand, telephone interviews are time-bound, and one is often left with short answers and with codes that pose a problem in the analysis of information. Such conversations are not cost-effective and cannot be applied in marketing research of consumer or popular goods and services. This tool may prove effective to contact customers who are not easily available. Interviewing has to be managed within a short span of time.

A survey conducted via mailing questionnaires needs a long time for information collection, and the response rate is also found to be limited. However, it may be considered by the researcher as one way of placing the informer on the company's permanent mailing list for a time series information inflow scheduled for the long run. Such a tool is useful in collecting time series data with flexible sample size and long-term research schedules. The example of a company may be cited, which was willing to monitor washing machines or water filters or photocopying machines as major products of the users through permanent mailing panels at the company office. This process also helps in building the buyer/seller relationship.

Data preparation

The data collected by fieldwork needs to be prepared for analysis and then summarized. This exercise helps in arranging data sets and classifying clusters for analysis. The data preparation process involves the editing of data, the coding of responses categorically, the tabulation of responses into frequencies or analysis tables, graphical representation of data and analytical results, and summary statements highlighting the main findings of analysis in different data sets. Editing of data involves the examination of raw data to ensure the accuracy of information and its presentation in usable form. Initial surveying of data needs to be done keeping the following issues in mind:

- Are the responses legible?
- Consistency of responses
- Are the responses complete?
- Doubtful notions and indirect responses.

Such screening is necessary for the answers of open-ended questions. These need to be carefully classified for clustering input for analysis. However, multiple choice data formats are easy for loading and preparing sets. Editing of data also requires checking the consistency of responses to related queries. The responses have to be cross-checked, and a researcher should receive a satisfactory presentation of information. Incomplete responses need to be sorted out, and attempts should be made to extract the relevant parts of the response from the indirect phrases for presenting information effectively. In order to increase the efficacy of the information, it is essential to edit the administered questionnaires at the end of the day during fieldwork. It helps in recapitulating the interviews held and the discussions arising before undertaking editing.

Coding is another exercise to be carried out in the process of data preparation. It is generally done to numerically codify the responses of open-ended questions and classify them appropriately. The codified data is used for statistical analysis. Pre-coded questionnaires are also used for interviewing, but they have a limitation in terms of restricted response options. Such formats are useful for handling large data analysis through computers. Tabulation is the process of arranging data into an illustrative form pertaining to the different variables of a factor. This exhibition of cross-tabulation is self-explanatory to a large extent. However, the presentation of analysis results or raw data can also be done through simple tabulation techniques. Cross-tabulation is one of the most popular designs for summarizing marketing research data. A researcher can identify the statistical relationship between variables and their significance by looking at the cross-tables.

Data analysis approaches

Data from any source in the raw form needs to be adjusted to fit into the analytical design of the study. There are different procedures for data analysis for extracting information from a given data set. They are as follows:

Regression analysis

This method is used to identify the trend using a time series data of one or more variables. A researcher distinguishes the variables as dependent and independent in nature. The analysis highlights the contribution of variables to variations in the dependent variable. The analysis, if carried out by two or more independent variables, is termed as multiple regressions. One prerequisite for such analysis is time series data of the variables identified. Regression analysis is a statistical process for estimating the relationships among variables, which includes techniques for modeling and analyzing several variables, with the focus on the relationship between a dependent variable and one or more independent variables. The assumptions in regression analysis include number of cases, accuracy of data, missing data, outliers, normality, linearity, homoscedasticity,[1] multi co-linearity, and singularity effects of data sets. An outlier in statistics may be observed due to variability in the measurement or it may indicate experimental error. The latter is sometimes excluded from the data set. The two primary uses for regression in business are forecasting and optimization. In addition to helping managers predict such things as future demand for their products, regression analysis helps fine-tune manufacturing and delivery processes.

As competition is increasing continuously and the market management process is becoming more complex, dependency on statistical tools to drive precision in developing marketing strategies is growing. The most common use of regression in business is observed in forecasting demand, consumer behavior, price response, and market share of the company. Demand analysis, for example, predicts the number of units of a product that consumers will purchase. Many other key parameters other than demand are dependent variables in regression models. Predicting the number of shoppers who will pass in front of a particular billboard or internet advertisement may help a company assess the outreach and frequency of viewing of the advertisement, and how much to pay for an advertisement. Insurance companies heavily rely on regression analysis to estimate how many policy holders would make accident claims or appear as victims of automobile robbery, for example.

Discriminant function analysis

This method is used to determine the impact of particular variables(s) on the dependent variable. This statistical process helps in finding the discriminating variables that could be combined in a forecasting equation for the group cluster. This analysis has been used to identify and develop criteria for market segmentation, and also to examine consumer behavior with reference to brand choice. Discriminant function is a statistical analysis used to predict a categorical dependent variable called a grouping variable by one or more continuous or binary independent variables known as predictor variables. Discriminant function analysis is used to determine which continuous variables discriminate between two or more naturally occurring groups. For example, a company wants to investigate which variables discriminate between consumers of dental care products by young consumers, elderly consumers, and children. For that purpose, the company could collect data on numerous attributes of consumer preference, such as quality, price, need, peer influence, and sense of oral hygiene among consumers. Most dental care products will naturally be preferred by the above category of consumers. Discriminant analysis could then be used to determine which variables are the best predictors of which dental care product is likely to be used by consumers of different age groups.

Factor analysis

The use of the approaches discussed earlier tends to give biased results on dependent variables due to high intercorrelations among the explanatory variables. Factor analysis attempts to provide an explanation for the correlations of a larger set of variables. This analysis may be useful to determine the attitudes of customers towards the products of a company in a given situation. Factor analysis is a statistical method used to describe variability among observed, correlated variables in terms of a potentially lower number of unobserved variables called factors. This method is a statistical method used to study the dimensionality of a set of variables. In factor analysis, latent variables represent unobserved constructs and are referred to as factors or dimensions. The main applications of factor analytic techniques are to reduce the number of variables and to detect structure in the relationships between variables, which is used to classify variables. Therefore, factor analysis is applied as a data reduction or structure detection method.

Cluster analysis

This process is helpful in obtaining segregated results for a group of variables of a homogenous nature. In marketing research, it is essential to set subgroups such as consumer goods, capital goods (in product) range, people, place, income levels, etc. Analysis is done keeping in view the clustered data as one segment or factor in the statistical process. Cluster analysis is a major technique for classifying large information into manageable, meaningful units. It is a data reduction tool that creates subgroups, which are more manageable than an individual datum. Clustering supermarket products by analyzing purchasing patterns can be used to plan store layouts, to maximize spontaneous purchasing opportunities. Banking institutions use hierarchical cluster analysis to develop a typology of customers to retain their loyalty. They do so by designing the best possible new financial products to meet the needs of different groups (clusters) for new product opportunities. Cluster analysis also supports bankers' decision to match the type of product, customer segments, and the right strategy for market penetration. Brand image analysis by customer perceptions, which allows a company to see how its products are positioned in the market relative to those of its competitors, can be measured using cluster analysis. This type of analysis would be valuable for branding new products or identifying possible gaps in the market.

Conjoint analysis

This method is used to explore the possibilities of designing and launching a new product that can attract customers. Customers are asked to rank some hypothetical products, and this information is put through composite indexing, and the final ranks are computed. This method is commonly used for psychometric tests and measurements in determining behavior. It is a popular approach for ranking the performance of the product as well as the company in the market. These analytical approaches support the study of identifying factors, variable correlations, and interdependence in a given situation. Models help the marketing manager to come to an appropriate decision on the basis of the logical interpretation of analytical results.

The link between the dependent variable and its determinants is specified in the microdynamic model. The impact of product promotion activities on the volume of sales can be explained by studying the links between advertising expenditure, the number of media message insertions, the level of product awareness, usage rate, etc. through this model. The microbehavioral model hypothetically analyzes independent variables such as consumers, dealers, etc. who interact and produce a report of behavior. The queuing model provides a logical base for making such decisions in the area of time-run sales or marketing whether to make the customer wait for the product or to alter the policy in view of competitive threats. This model can be effectively used in supermarkets, transport organizations, etc. The decision-making models comprise of mathematical techniques, decision theories, and probability models, which are calculus- and theory-oriented. Game theory is also an important approach in the decision-making exercise, drawing attention to the identification of alternative decisions, uncertain variables, and the value of different results.

Table 5.1 Research tools for different types of analysis

Analysis areas	**Research tools**
Product policy decision	• Focus group • Survey of developing new product • Concept testing/test marketing • Product attitude data
Pricing	• Price sensitivity approaches
Distribution decision	• Data on shopping patterns and • Consumer behavior • Distributors attitude and policy • Data on performance of different store types
Advertising decision	• Concept pre-testing • Evaluation and feedback analysis • Surveys on media habits
Sales decisions	• Analysis of response in terms of revenue • Profit and image of promotional strategies

Approaches other than those discussed above are specific to the problem. For instance, a focus group analysis based on qualitative information may be done for determining product policy. The related research and analytical approaches are shown in Table 5.1. It is, however, advised in the case of international marketing research that a greater use of qualitative research techniques may be made at the initial stages of market entry in order to familiarize one set with the international environment. Further, a concrete research process can be developed, more complex if possible, and administered in different countries having different social, economic, political, and legal environments.

Monitoring and evaluation research in marketing

Monitoring and evaluation in marketing is a new discipline, which may broadly be classified as a component of development planning. It is an important tool for assessing the physical and financial progress of product marketing in developing markets where the product is relatively new, and has yet to make customers familiar with its usage. Though 'monitoring' is an old concept, the 'evaluation' approach begins with new experiments in production and technology extension in the areas of modern consumer products and services. Monitoring and evaluation studies help us understand the status of the product in the market, and the prospect of cultivating better ways and means of distribution, pricing, promotion, and product-mix strategies for a company on the basis of consumer feedback.

Monitoring and evaluation analysis helps in determining the trends of consumer behavior, volume of sales, and related variables. Behaviorally, monitoring and evaluation may be defined as learning dynamics in the planning and management of marketing development projects. Much of it is still in the stage of 'trial and error.' Global concern for business development has led to close competition in product standards and to administering customer-oriented strategies for accrediting the product and the company using welfare business theory. In attempt to establish such theories, one of the important factors to be considered is evolving an efficient marketing-mix system, which is a complex and important parameter that determines growth in business. Thus, monitoring and evaluation studies have a vital role to play in reconciling the business administrative tasks within a competitive environment.

Another major impetus to the growing interest in monitoring and evaluation is based on development concerns in marketing management. It is used as a tool to probe the failure and success factors responsible for successful/unsuccessful strategies. The flows in decision-making can be understood from marketing evaluation reports, which help to draw lessons for the future and to build up appropriate alternative strategies. Marketing management is an interdisciplinary concept that needs integration, as very often, several distinct components are administered by separate agencies. Monitoring and evaluation plays a crucial role in the coordination of marketing plan implementation. Lessons drawn from monitoring and evaluation help in identifying gaps in the existing approach to designing of alternative projects.

Structural components

Monitoring and evaluation are the analytical methods applied to relevant data and information in order to derive feedback reports of the existing implementation pattern of a project or scheme. It is sometimes essential to have monitoring and evaluation units at various distribution points to monitor demand and supply status, customer orientation, and other behavioral issues. The specific tasks of the monitoring and evaluation unit are given below:

- To monitor the flow of goods and services to the terminals from production centers via established backward and forward linkages
- To evolve accuracy in data and information flow to analyze feedback
- To evaluate the marketing project and to study the impact thereof on the target group to build up alternative approaches for better implementation and outcome.

Ideally, in a company, the monitoring and evaluation structure (with reference to marketing management) should be situated in marketing regions under the charge of a monitoring and evaluation manager vested with the task of periodical monitoring of demand, supply, pricing, quality, retailing, and other related matters. He should be assisted by a statistical assistant. However, this structure is subject to the turnover and marketing research potential of the company. This unit is, by and large, concerned with the data pertaining to physical and financial targets and achievement. However, feedback on marketing also should be considered at the same time. Thus, a monitoring and evaluation unit in a potential company would be very helpful in developing marketing plans for indigenous products of the region, through effective monitoring and evaluation research. The monitoring and evaluation unit in such agencies can be relatively small depending on the area of operation, and location in the administrative hierarchy. In fact, the monitoring and evaluation unit should form an integral part of the marketing research unit structure and should also serve as the Marketing Planning Secretariat of companies, individually or in a cluster. A small and compact team is preferable compared to large units in most cases as supervision would become a problem in the long run. The monitoring and evaluation head should preferably be a senior-level manager in the management hierarchy. The task of designing a monitoring and evaluation system for a marketing project should start in the embryonic stage itself.

SWOT analysis

It is observed that no product marketing is effective in the long run unless modifications in marketing approaches are properly carried out. Self-appraisal mechanisms within the product marketing system need to be developed by a firm to acquaint itself with the existing strengths, weaknesses, opportunities, and threats (SWOT) of the product in the market. Such analysis has to be done with reference to the prevailing market conditions for the product. Table 5.2 explains the areas of SWOT analysis for achieving better marketing efficiency. Companies may restructure the production and marketing design of their products on the basis of weaknesses and threats in order to explore better opportunities and to achieve more strength in the product market.

Product marketing has a tertiary environment comprising the Social, Technological, Economic, and Political sectors (STEP) that affect the marketing of products indirectly. These factors together provide scope for developing a capitalist environment by interrupting the inflow of products to potential markets. This in turn provides an opening for products to capture these markets through STEP approaches. The STEP effect is common for new product entries that often cause customers to feel indecisive. The power structure of capitalist industries operates

Table 5.2 Areas of SWOT analysis

Strengths	**Weaknesses**	**Opportunities**	**Threats**
• Production recognition	• Product recognition	• Uninterrupted entry	• Market competition
• Long standing in market	• Short span	• Weak competition	• Fashion advertisements
• Consistency in price, quality, and supply	• Pricing mismatch	• Substitutes and complementary products	• Contemporary marketing mechanism
• Effective distribution network	• Product design	• Access for MIS and CAS	• Frequent shifts in demand
• Strong Market Information System (MIS) and Consumer Awareness System (CAS)	• Product transformation system	• High-density marketing area	• High cost of marketing
	• Risk		• Political and technological threats
	• Low market investment		
	• Poor accessibility to market		

with a strong resistance in competitive markets and even dilutes state intervention to a large extent. It would help to protect the consumer system within the STEP framework to avoid marketing interruptions at the premature and mature stage of the product cycle.

Qualitative market research

There are many forms of conducting qualitative research in marketing. Of these, focus group analysis and exploratory research are commonly used by international market research firms. In foreign markets, focus groups have the advantage of being relatively inexpensive, they can be completed quickly, and can reach local pockets of the total market. Unfortunately, they can also constitute a non-representative sample because the typical screening criteria are incorrect in the new environment or are not implemented correctly. Generally the non-random sample sizes of focus groups are the best fit to discuss issues of common interest. The participants in focus groups are paid for their time investment, usually a small amount. Compensation to focus groups participants is typically US $2.5 per hour in the USA, and about the same in Europe. However, the amount varies by city and by respondents' occupation more than by country. It is necessary to provide full freedom to participants in the focus group during the process of discussion on predetermined issues, and the role of moderator should be minimized. Such an open house situation would provide the participants with an unbiased environment for holding discussions on the given issue. A French company sent the videotapes of five focus groups to a Latin American client, who was surprised to observe the dominating attitude of the moderator towards his respondents. The moderator, not without pride, explained to the perplexed sponsor that he usually dealt with corporate customers for industrial products, not teenagers discussing audiotape design.

There are many cultural aspects affecting the application of the kind of direct questioning involved in the typical consumer survey. In high-context cultures the idea that one can understand consumers from their responses to a formal survey is naive. Open-ended questions are often left blank by respondents in hierarchical cultures who are not used to explaining their reasoning or are afraid of being too transparent. The response pattern and the data reliability factor vary in many countries as respondents generally behave indifferently to a stranger (interviewer).

Another type of qualitative research may be to conduct a *general survey* through an open-ended questionnaire and to make a content analysis at the end of the survey. Surveys of relatively large random samples drawn from a sampling frame of representative product users constitute the 'meat and potatoes' of descriptive market research. Whether administered by mail, phone, or in person, such surveys are used for a variety of marketing purposes, including segmentation and positioning, concept testing, customer satisfaction, and competitive product evaluation.

But problems with survey research methods in certain markets have been well documented. A major problem associated with surveys may be the attitude of the respondents towards the study. In Latin American and East Asian societies, there will be prospective respondents who refuse to divulge any opinions simply because they 'do not want to be taken advantage of', distrusting the function of market research. In more risky cases people will consent to participate only to fake their responses so as to distort the findings. To handle these problems of the non-cooperation of respondents, the firm needs to thoroughly understand the general sentiments of the respondents in the local market and frame the questionnaire accordingly. However, it is also a good idea to monitor the process by observing some pilot interviews if at all possible.

The faster, most cost-effective, and most commonly used method to learn about customers in a market is to do a *trade survey*, by interviewing people in the distribution channels and trade associations. In such surveys the type of buyers, the type of buying processes used, and the sources of buyer information are clearly defined. These professional market research firms can also provide a solution for multinational companies seeking trade surveys on who should be the respondents, when to administer the questionnaires, what should be the nature of questions, and the number of questions to be used in trade surveys. These market research firms provide a good starting point for further data gathering and analysis.

Market research also involves *direct observation* of customers who are buying and using the products. This method allows companies to know consumer behavior towards existing products and develop a competitive marketing strategy accordingly. The behavior of consumers towards existing products gives important clues to customer preferences, especially in mature markets. In markets where access is free and customers have well-developed preferences, the sales records of the various products constitute, in fact, a shortcut to understanding customer preferences. This method is very useful during the pre-launch stage for foreign firms to develop an appropriate launch of their products in segmented markets.

The method of observation also faces some practical difficulties if certain assumptions are made to interpret the observed issues. A firm may assume that current products reflect customer preferences, and such an assumption is likely to hold only in mature markets with no entry barriers. However, where customers have been deprived of products because of trade barriers, consumer preferences might well display a desire for something different. Such latent preferences cannot be uncovered through observation.

On the other hand, *causal marketing research* is sometimes combined with experimental methods of research and causal models. The aim of such research may be to determine the extent to which a causal variable such as price or advertising has an effect on variables such as brand preference or purchase. There are typical research designs that may be used in such experimental methods and towards the estimation of links in causal models. The problems addressed in the casual market research tend to be about the fine-tuning of price levels, testing of alternative advertising copy and visuals, and the link between post-sales service and customer satisfaction. The basic notion underlying the research is that a multinational company needs to understand precisely which of the contemplated marketing activities will have an appropriate bearing on the results.

Contemporary trends in marketing research

Organizations seeking to adopt a more customer-focused strategy can learn from the approach of DuPont. The company began grappling with this challenge, based on an extensive program of qualitative and quantitative research with customers across various countries. Customer touch-point analysis of the organization facilitated alignment of functional groups within the organization (product, sales, customer service, etc.) and equipped them to deliver on newly developed, segment-specific value propositions. This major initiative has enabled DuPont to reprioritize internal efforts and business practices and been a catalyst for broader organizational changes, notably the dissolution of many functional silos that previously had hindered its ability to deliver against its brand promise (Sena and Petromilli, 2005).

Customer-centric research aims at developing pro-customer strategies to focus on better ways of communicating value propositions and delivering the complete experience to real customers. Learning about customers and experimentation with different segmentations, value propositions, and effective delivery of services involves the customer in business and helps frontline employees acquire and retain customers with increasing satisfaction in sales and services of the firm (Selden and MacMillan, 2006).

Value chain research is another area of growing interest for multinational companies. The investigation into the value chain constituents includes consumers, suppliers, manufacturers, and social networks. Firms need to clearly understand the term 'value chain', which suggests an orderly progression of activities allowing managers to formulate profitable strategies and coordinate operations with suppliers and customers. The value-chain should be integrated within a 'value grid.' The grid approach allows firms to identify opportunities and threats in the competitive marketplace. It enables managers to understand the power balance between suppliers and manufacturers. The new pathways to value can be vertical, as firms explore opportunities upstream or downstream from the adjacent tiers in their value chain, while horizontal pathways can be determined by identifying opportunities from spanning similar tiers in multiple value chains among all functionaries and customers (Pil and Holweg, 2006).

Marketing firms should develop the value chain research process to enhance the organizational capability of achieving fast responses to rapidly evolving market dynamics. In order to administer value chain research, firms should strive at finding responses to such critical questions as:

- Where is value being created?
- How to expand business?
- Does the firm need outsourcing?
- Which areas need investment?
- How to optimize the value chain?
- Does the firm need to establish strategic alliances?

Firms are required to employ economic value-added analysis and strategic value assessment such as customer preferences, the rate of change of underlying technology, and competitive position in the marketplace (Fine et al., 2002).

In the fray of acquiring customers amid competition, most companies have earned friends and followers on social platforms such as Facebook and Twitter. Few of them have succeeded in generating profits there, however, while others are yet to realize the benefits of social platforms because they just transport their digital strategies into social environments by broadcasting their commercial messages or seeking customer feedback without generating involvement and emotions among consumers for the business. To succeed on social platforms firms need to develop social strategies consistent with users' expectations and behavior in these venues, namely, people want to connect with other people, not with companies. Successful social strategies should aim at reducing costs, increasing customers' willingness to participate in pro-company or brand communication, and strengthening relationships between society and the company. Social strategies can generate profits by helping people connect in exchange for tasks that benefit the company, such as customer acquisition, marketing, and content creation (Piskorski, 2011).

In practice, the term social business is used to refer to activities, a phenomenon or trend, or a type of organization. There are difficulties in developing strategies using social platforms and adopting social business activities. However, social business appears to be a trend in the global marketplace to exhibit consumer power and stay abreast of competition. A number of large transnational companies like IBM and General Electric have emerged as social business ventures because they have attempted to break down the operational barriers for reaching out to people within the organization. Using the term 'social' in conjunction with business can elicit a mix of reactions.

The penetration of internet-based social media in the bottom-of-the-pyramid market segment has made it possible to initiate communication about products and the companies on the basis of one or many outlets. Thus, the impact of consumer-to-consumer communications has been greatly magnified in the marketplace. Social media has emerged as a hybrid element of the promotion-mix because in a traditional sense it enables companies to talk to their customers, while in a non-traditional sense it enables customers to talk directly to one another. The content, timing, and frequency of social media-based conversations occurring between consumers are outside managers' direct control. This stands in contrast to the traditional integrated marketing communications paradigm. Emerging companies must learn to shape consumer discussions in a manner consistent with the organization's mission and performance goals. This includes providing consumers with networking platforms, and using blogs, social media tools, and promotional tools to engage customers (Mangold and Faulds, 2009).

The twenty-first-century revolution in market research has emerged through real-time information-sharing among companies to help in improving their strategic directions in the marketplace. Big Data, a project contributed to by large companies, has become far more powerful as a market research tool than the analytics of the conventional research process of the past. This opportunity enables companies to measure and manage market information more precisely than ever before. They can make better predictions and smarter decisions as well as target more effective interventions in competitive and customer-sensitive areas through data and rigor. The differences between Big Data and analytics are a matter of volume, velocity, and variety. Big Data research helps the organization in establishing the following objectives:

- Capture, curation, storage, search, sharing, transfer, analysis, and visualization
- Deriving business analytics through internet resources and remote sensory analysis
- Building competitive intelligence for real-time data analysis.

As information and communication technology is growing continuously, more data now flows through the internet every second than was stored in the entire internet 20 years ago. Nearly real-time information makes it possible for a company to be much more agile than its competitors. Social networks, images, sensors, and other unstructured sources also generate the inflow of market information. Organizations are engaged in talent hunts for Big Data management, for people who can analyze large data sets and translate them into useful business information (McAfee and Brynjolfsson, 2012).

International Organizational Designs

In terms of *international business divisional structure*, the multinational firm's activities are separated into two units comprising domestic and international operations. The main function of an international division is to draw a distinction between its domestic and international business.

A worldwide *geographic organization* can overcome the problems associated with an international divisional structure. In this structure, foreign and domestic operations are not isolated, but are integrated as if foreign boundaries did not exist. Worldwide markets are segregated into geographic areas. Operational responsibility goes to area line managers, whereas corporate headquarters maintains responsibility for overall planning and control. Major attributes of the geographic organizational design of multinational companies are as below:

- Product lines are less diverse
- Products are sold to end users
- Marketing is a critical variable
- A similar channel is used for the marketing of all products
- Products are based on local consumer needs.

This organizational design has various advantages, markedly delegation of line of authority and explicit responsibility. Specifically, the features of this system include:

- Responsibility and delegation of line of authority
- Manufacturing and product sales coordination
- Large number of executives
- Conflicts of roles and responsibilities
- Lack of specialists in the product sales line.

An important disadvantage in geographic organizational design may be seen when a large number of top-level executives are involved in operational tasks, which leads to conflict in power and command execution in the organization. Besides the agglomeration of top management personnel, individual products may suffer, as responsibilities cannot be fixed easily to operational executives.

A *product organization design* is different from geographic design wherein a worldwide responsibility is assigned to product group executives at the line management level and emphasis is placed on the product line rather than on geographic differences. The coordination of activities in a geographic area is handled through specialists at the corporate staff level, whereas focus is laid on the performance of product-mix in a given area in the product organization. Multinational companies operating within this structure have a variety of end users, handle diversified product lines with high technological capability, and divert logistics costs to the local manufacturers. This type of organizational design has several benefits, including:

- Decentralization of authority
- High motivation of divisional heads
- Adding or dropping new products has marginal impact on operations
- Control of product through the product lifecycle.

In this organizational structure, a firm is segregated along product lines, considering each division as a separate profit center, with the division head directly accountable for profitability. Decentralization of operations is critical in this structure, and more decisions are likely to be left to the local manager, who is then usually more highly motivated. Decentralization of authority is a prime advantage of this structure where division heads are highly motivated. This structure allows product managers to add new products and product lines and withdraw old ones with only marginal effect on overall operations. Another advantage of this structure is that the control of a product through the product lifecycle can be managed more readily and securely. However, firms following this organization structure often face the problem of coordination among product and territory managers. In addition, it is felt that executives quickly become biased towards the regional and corporate staff in managing any product process.

In recent years, a synergy of all the above organizational structures, defined as a *matrix structure*, has emerged among multinational companies. A matrix structure offers greater flexibility than single line-of-command structures and reconciles this flexibility with coordination and economies of scale to play to the strength of large organizations. The attributes and advantages of matrix organization include:

- Multiple command lines
- Product and geographic coordination
- Product lines in a national setting
- Organization design reacts quickly to local environment demand.

For a multinational firm, a matrix organization is a solution to the problem of responding to both economic and political environments. General Electric Company in Asia operates with a matrix structure and has been successful. A matrix organization can encompass geographic and product management components. However, some of the disadvantages in following this organizational design are a tendency to power struggles among the supervisory personnel and parallel decision-making.

Besides the above organizational structures, there is also an evolved organization structure that blends value systems and action logics of various sectors of the society involving the public, private, and voluntary sectors in carrying out business operations. A multidimensional model of *a hybrid organization* can be constructed consisting of structure and activities, values and strategy, and governance and politics. Lateral organizations, top-down organizations, and other types of organizational structures can all be combined into a hybrid structure. A hybrid organization can be defined as a complex organizational structure in which more than one organizational design is used. Some of the disadvantages of hybrid organizational include a slow decision-making process, bureaucracy, disrupted work cultures, conflicts of interest in business operations, and lack of competence in task management and individual accountability.

6
Internal and External Fit

Globalization has stimulated multi-dimensional business growth across all regions and has intensified market competition at all levels. Since the late twentieth century business dynamics has turned bidirectional, wherein multinational companies tend to penetrate in emerging markets and at the bottom-of-the-pyramid market segment, while regional companies are striving to go global. Under such dynamics companies need to establish an internal and external fit within the organization, among employees as well as with market players. This chapter addresses the growing macro and micro issues in emerging markets resulting in business and economic development. As competition increases in the marketplace, it becomes more complex to manage in a multiplying number of competitors. This chapter focuses discussions on conducting competitor analysis and developing effective competitive strategies. Various strategies on modes of entry into international market destinations and common procedures for exporting products are also discussed in this chapter.

Emerging markets, in partnership with business leaders, pursue a variety of initiatives that cut costs and provide new customer-focused products and services. The leading group of emerging markets consists of Brazil, Russia, India, China, and South Africa (BRICS). These markets are turning into manufacturing and marketing centers for multinational companies, and locally emerging markets are growing as a hub for consumer-centric products. The fastest-growing emerging markets have the potential to provide 90 percent of the growth in consumption of luxury beauty products and women's wear by 2020 (The Economist, 2014). China will account for nearly half that growth, which leaves plenty of opportunities for other developing countries. Whereas makers of packaged consumer goods must extend across entire countries to reach their markets, luxury producers can concentrate on the main cities.

Growing technological skills and the impact of technology on the competitive advantage of the firm also prompt companies to cannibalize existing brands in the market. The ability to keep up with changing technology is critical for a company's long-term survival. However, companies need to balance the risk of rushing into new areas and potentially cannibalizing their existing business against the risk of losing their market share in emerging markets. It has been observed that when new entrants penetrate into prevailing market niches, they pose higher threats in cannibalizing the products of competing firms. Such crash entries of new firms pose threats to existing firms irrespective of size, and this trend may continue as a contagious process. New entrant firms in the market are more likely to respond to innovations in their industry in line with their counterparts. However, the threat of cannibalization appears more critical for firms that are similar in size and resources in a given market (Debruyne and Reibstein, 2005).

It is difficult to develop sustainable strategies to enter new markets or to decide to do new business. Most companies emerging out of a regional base and intending to go global operate on a cost-effective pattern by managing business tasks within small resources. Emerging markets are still not equipped with business operations infrastructure and lack specialized intermediaries, regulatory systems, and contract-enforcing methods, which hinders their mobility in overseas markets. Consequently multinational companies find it difficult to operate in emerging markets, which has led to resistance in investing by many companies. If multinational companies are unable to develop appropriate strategic directions for engaging with emerging markets, they are unlikely to remain competitive and penetrate their brand in destination markets. Many firms choose international destinations tactically based on short-term goals but fail to sustain in the market when faced by the behavior of rivals (Khanna et al., 2005). As global competition tends to increase continuously, the global face of customer-centric industry is changing dramatically in the twenty-first century, and emerging markets continue to observe manifold growth, in regard to innovation, product differentiation, consumer preferences, retailing strategies of the companies, and per capita spending.

Developing competitive strategies in emerging markets strategy has been conceived as a priority growth agenda of many multinational companies. It is estimated that the purchasing power of consumers in the emerging markets has increased substantially, and since 2000 some 57 percent of the nearly one billion global households have shown earnings greater than US $20,000 a year in terms of purchasing power parity. Such a hike in the potential of consumer spending has given a commanding incentive for multinational companies to expand their business to the second (developing countries) and third levels (bottom-of-the-pyramid market segments) in order to make their brand omnipresent and conquer the market universe. Seven notable emerging economies, comprising China, India, Brazil, Mexico, Russia, Turkey, and Indonesia, are expected to contribute about 45 percent of global GDP growth by 2020. Russia and South Africa are also emerging as potential growth poles in the global market arena. Emerging markets will represent an even larger share of growth in product categories, such as automobiles, that are highly mature in developed economies, by the middle of the twenty-first century (Atsmon et al., 2011).

Most companies are confident of entering into lower-income consumer segments in emerging markets by adapting to price- and promotion-sensitive strategies. Hence, in bottom-of-the-pyramid segments of consumer markets, multinational brands have made their place sustainable by price-slashing and subtracting product features. Multinational companies are thriving on acquiring consumers through continuous product differentiation and value augmentation, as they believe it is appropriate to appeal to potential customers by unveiling the competitive advantages of their brands against competitors'. Companies like Ford Motors, Samsung Electronics, and Unilever are also involving consumers in product design and marketing operations as a co-creation appeal demonstrates that companies can build loyalty by engaging consumers as productive agents not only to transform consumer culture but also to strengthen the competitiveness of the company. Driving consumers in co-creative and productivity-enhancing systems coupled with strategies for transforming buying cultures allows companies to successfully penetrate and sustain in emerging markets that are sensitive to the income and spending criteria of consumers (Flores et al., 2003).

As emerging markets are becoming increasingly diverse and competitive with creeping innovations and technology breakthroughs, multinational companies are engaged actively in implementing strategic approaches to improve their competitiveness in destination markets.

At the same time the emerging markets are also welcoming the competitive differentiation across companies for delivering fair value to consumers. In the race of running their business to downstream consumer segments in emerging markets and bottom-of-the-pyramid market segments of developing countries, most leading corporations have learned to address pro-active and interactive marketing strategies with all market players, including consumers.

Most multinational companies feel that developing macro-marketing strategies is enough to accelerate growth in big emerging markets like China, India, and Brazil, which might actually be a wrong notion. There is a wide cultural disparity towards consumption and marketing practices within these countries, which demands that companies develop micro-marketing strategies to be successful in niches across the regions and later reach out to the larger population. However, opportunities in these markets are also rapidly moving beyond the large cities, and is expected that by 2030 multinational companies will cover the markets of all layers (metropoles, big cities, towns, and rural markets) in India, China, and Brazil. The population and income characteristics of emerging markets are so different and dynamic that it remains difficult to forecast their consumption patterns.

Stages of economic development

A large number of developing countries have made slow progress or have lost ground in the race of global competition. In particular, per capita income in Africa have declined relative to the industrial countries, and in some countries have declined in absolute terms. Until the 1980s, many emerging markets were characterized by state-ownership and intervention. In a number of respects the transition economies have faced challenges in developing entrepreneurial skills and planning for business growth over the recent past. In many developing economies, populism[1] led to over-expansive macroeconomic policies, relying on deficit financing and generalized controls, which took little account of basic economic equilibria (Drabek and Laird, 1997). The problems in the developing world manifest themselves in different ways, apart from falling incomes and the absence of growth. In a number of cases there were serious balance of payments crises (Indonesia, Mexico, and Nigeria); in Latin America there was acute hyper-inflation (Argentina, Bolivia, and Peru). Macroeconomic instability usually has serious consequences for a country's balance of payments and trade. Domestic imbalances translate into current account imbalances, and then foreigners are often blamed for unfair trade practices and the like. The greatest risk of slippage in trade policy occurs where there is a lack of fiscal and monetary discipline, and the real exchange rate is allowed to appreciate sharply, that is, nominal exchange rates are not allowed to compensate fully for the differentials in inflation between home and foreign markets. However, emerging markets need to analyze the achievements of the fast-growing economies in East Asia, which are either open, as Singapore and Hong Kong, or which have introduced economic reforms much earlier, like South Korea and Chinese Taipei), albeit with different emphases in key elements.

Companies planning territorial expansion have used a three-pronged attack in their strategy to penetrate the emerging markets: offensive, defensive, and efficiency initiatives. Much has been discussed in previous studies about economic development stages and policies in reference to the various stages that are advantageous for countries. Business growth and economic development occur simultaneously in a country that attracts multinational companies to participate in the national economy. Walt Whitman Rostow has theorized five stages of economic development, which fit into the business perspectives of globalization. Figure 6.1 exhibits the standard stages of economic development and their implications for business growth.

The classical school of thought on economic development in the early twentieth century stated that economic growth emerges from societal development and is not necessarily influenced by external business-led factors. Hence, civic needs and societal values were largely confined within the political agenda of a country. However, the growth in technology, innovation, and expansion of business has catalyzed the economic development in emerging markets as well as in developing countries. Figure 6.1 illustrates the convergence of economic development and business growth through various stages in a country's development.

The first stage of economic development was traditional society, which began as a state of unorganized business and limited monetary mobility in society, wherein the exchange of goods through a barter system prevailed. No such societies exist now as far as is known.

Most developing countries can be found in the second stage of economic development, engaged in fulfilling the preconditions for economic takeoff. In this phase, countries are engaged in developing social and business infrastructure to attract domestic and foreign investment. Most developing countries are also investing in improving scientific innovations for public health and sanitation, industrial production, telecommunications, and environmental research to make

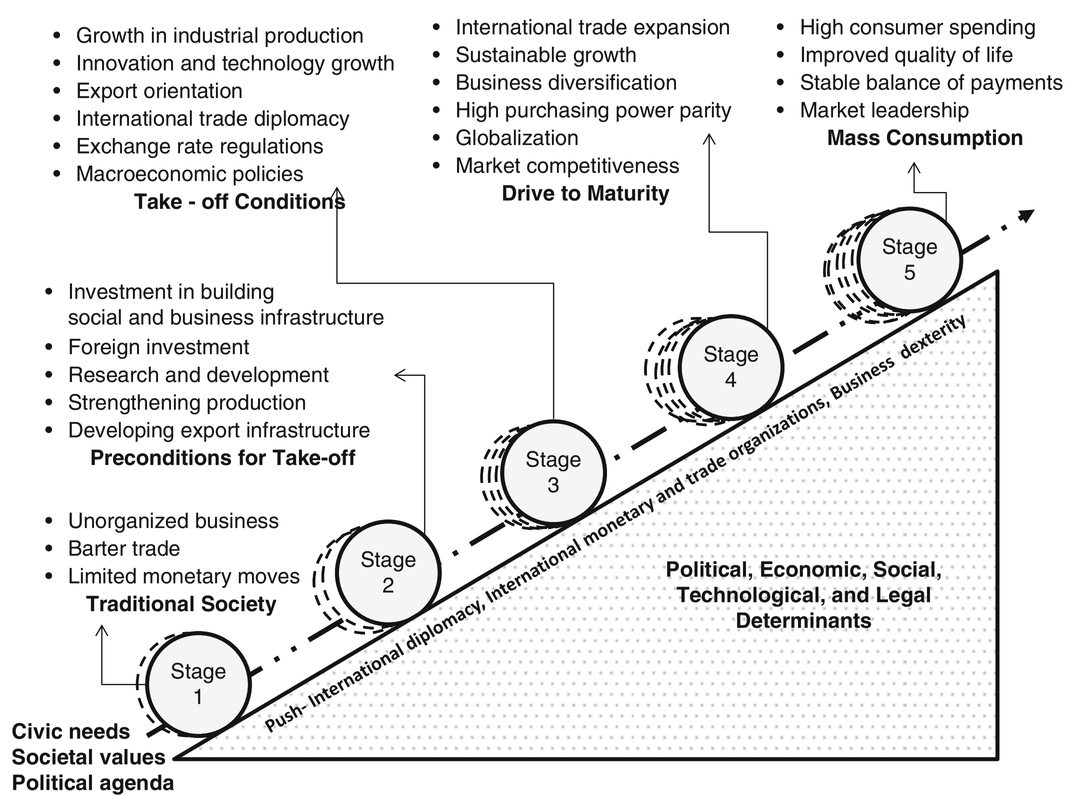

Figure 6.1 Stages of economic development and business growth

their destination appropriate for inward business investment and growth. In this stage most countries have a disequilibrium in their balance of payments as they incur more expenditure in investment in social (public health, education, housing, social security, and internal security) and business infrastructure than in exploiting resources to derive income. Consequently the international debt of the countries also mounts in this stage.

However, successful countries in this stage lead to the third level of economic development, fulfilling the take-off conditions, which is significant and relevant for emerging markets. Countries at this stage focus on achieving high goals in industrial manufacturing and strengthen export infrastructure to reach out to international markets. They also open up their economic and diplomatic relations to develop international trade agreements and strategic business alliances with multinational companies.

The drive to maturity is the fourth stage of economic development, which allows the countries to expand their international business and grow sustainably in global markets. Most countries also tend to diversify their business, and for example India has moved far ahead of industrial manufacturing and has established an iconic image in its offshore services in information and communication technologies. In this stage a country moves rigorously towards globalization by gaining higher purchasing power parity and market competitiveness. Countries in this stage also engage in the structural adjustments in their economy and employ various measures towards industrial reforms as discussed below:

- Industrial reforms
  - Improvements in industrial and business infrastructure, free trade policies, liberal licensing and manufacturing regulations, easy patent registrations, implementing rigorous policies on trade-related intellectual property and trade-related investment measures
- Economic and legal reforms
  - Foreign direct investment, anti-protectionist policies, foreign exchange regulations, easy import/export policies, simplified tariff structure, and liberal transfer of funds and repatriation of profits
- Trade environment
  - Developing free trade areas
  - Engaging business operations with emerging markets
  - Working on bilateral and regional treaties for elimination of tariffs in international trade and allowing cross-border trade for mutual economic development and business growth.

The last stage of economic developing of a country is of mass consumption, which exhibits a high propensity towards spending, improved quality of life, stable balance of payments, and strong market leadership. The stage of mass consumption refers to the period of contemporary comfort afforded by many Western nations, wherein consumers concentrate on durable goods, and hardly remember the subsistence concerns of previous stages. There is a desire to develop an egalitarian society and measures are taken to reach this goal. According to Rostow, a country tries to determine its uniqueness, and the factors affecting it are its political, geographical, and cultural structure and the values present in its society (Rostow, 1962).

International competition

Globalization has not only triggered intensive market competition across industries, sectors, and regions but has also presented a daunting business challenge of the continuous differentiation in products and services to stay competitive in the market. As innovation and technology in consumer products increase dramatically the trend in market competition is not from familiar multinational rivals as much as from lesser-known emerging companies at the regional level. These companies often use unusual tactics and strategies, and those global companies that wish to compete with them should learn new rules of engagement in management, such as 'Asia's new competitive game' (Williamson, 1997):

- First movers in the market will always gain competitive advantage,
- Companies penetrating into new competitive segments should simplify their supply chain and overcome bottlenecks in logistics and inventory management
- Twenty-first-century market competition has driven companies towards mergers, acquisitions, consolidations, and building walled marketspaces to protect their business strategies
- It is necessary for companies to create a competitive posture and dominant position in an industry
- Companies can also gain advantage in the marketplace by bringing market transactions in-house and leveraging corporate goals
- A networked style of company organizational structure is advantageous to manage market uncertainties and competition
- Creating competitive differentiation, unique selling propositions, and quick commercialization of innovative products all help companies reap competitive advantages in the market

- Companies should make efforts towards continuous improvement in product quality, technology, and marketing strategies, and grow as learning organizations.

Some multinational companies that have brought some of the above points into practice have been successful in enhancing their business growth by increasing market share and revenues substantially against competition. Some companies have earned revenues as high as the gross domestic products of smaller countries and are aiming to expand their business across various consumer segments. However, as globalization is reaching out to bottom-of-the-pyramid market segments, governments of developing countries are empowering local companies to compete in the free marketplace. Hence, market competition is polarizing at local business center level and local companies are increasingly thriving in the market against multinational competitors. For example, Nirma detergent powder, first manufactured by a small-scale company in India in 1985, had become a major consumer brand by 1999 and a major challenger to the flagship brand, 'Surf' of Hindustan Unilever Limited. Such challenges are particularly seen in emerging markets, where multinationals are assumed to be market leaders. In China, the ice cream, laundry detergent, and appliance markets provide examples of this phenomenon.

Despite the presence of multinationals in local markets, local companies will always try to become share leaders. A similar pattern is being repeated in other emerging markets. However, in some cases multinational companies have been able build market gains over local competition through first-mover advantage or by acquiring the leading local players and nurturing their local identity and strengths. Globalization has made the transfer of technology process easy for large companies through consortium production and sharing manufacturing functions with small and medium enterprises (SME), which has leveraged SMEs towards low-cost parallel manufacturing and driven competition in the marketplace. Such shared manufacturing practices for multinational companies have on one hand given cost advantages to large companies, while on the other have prompted threats of disruptive innovation and technology in the local markets. Market competition through shared manufacturing has set tough challenges as most companies prefer to engage local manufacturers to reduce costs in production, logistics, and inventory management. The continuous manufacturing and marketing strategies of large companies lean towards lower-value activities by outsourcing and often engaging offshore companies. In creating global markets though 360° business growth strategies, local companies also get the benefit of exploring new businesses and the potential to aim for regional expansion. Consequently, in managing the regional expansion of business, once-closed value chains are created, enabling local players to source plug-and-play manufacturing and marketing modules with multinational companies to drive market competition at local levels and be alert to the threat of disruptive innovations. If multinationals are to succeed against local competition in emerging markets, they need to adopt the emerging business philosophy of 'go global/act local' and develop locally adaptable manufacturing and marketing strategies. It is necessary for multinational companies aiming to penetrate potential developing markets to create strategies that will offer new advantages in target markets by integrating their businesses with local commercial networks, protecting their unique brand proposition and shaping local markets, rather than just adapting to them (Santos and Williamson, 2015).

Companies in the BRICS grouping (Brazil, Russia, India, China, and South Africa) along with other emerging markets are focusing on a new front in global competition based on reengineering the manufacturing process using lean methods and cost-effective new product development techniques. The economy-of-scale approach of manufacturing innovative products is encouraging local companies to depend on home-grown intermediate technologies. Chinese companies still have the advantage of such low-cost technological breakthroughs while also penetrating into global markets. Chinese companies like Lenovo Group Ltd and Xiaomi Inc. are pioneering new ways of industrializing innovation. They are pushing the boundaries of consumer electronics engineering, leveraging rapid 'innovate-launch-test-improve' cycles that combine the matrix approach of integrating vertical and horizontal business processes. Lenovo has managed to halve its new product development cycle to accelerate innovation, and makes its presence felt in the market with differentiated products to sustain market competition. Chinese companies have learned to accelerate innovation across a wide range of industries, using rapid scale-up, low-cost, and acceptable quality that offers reasonable value for money. Low-cost technology breakthroughs and competitive differentiation are powerful processes to disrupt incumbents' manufacturing, marketing, and profit models. In order to manage market competition companies need to reengineer the customer-centric innovation processes, focus on time-sensitive projects, and develop alliances with local players in order to tap jointly into accelerated innovation know-how (Williamson and Yin, 2014).

Besides cost-based market competition, the facility locations for manufacturing and marketing in different destinations also contribute in determining market competition. Some decisions made by the manufacturers of multinational companies on new locations in the past not only yielded disappointing results but also induced intensive geographic and resource competition. Location decisions can be tactical or stop-gap arrangements for manufacturing companies with production-sharing or custom-hiring of manufacturing infrastructure with local companies to achieve faster entry into destination markets. Such arrangements are short-sighted at best. Many firms moved their manufacturing overseas to obtain a factor cost advantage in logistics and inventory, and other key determinants concerning customers, suppliers, development, and sales infrastructure. Hence, the current geodemographic and geo-economic practices of multinational companies in managing competition in manufacturing and marketing indicate that a capability-centered approach creates sustainable benefits by fostering the development and growth strategies concerning customers and the competitive environment (Bartmess and Cerny, 1993). The global competitive environment in reference to customer location, natural resources, currency valuation, labor, and transportation costs and availability plays a major role in determining market competition. Most companies are revisiting decisions about their preferred manufacturing locations considering the above factors when deciding whether they should plan for onshore or offshore manufacturing and business activities (Tate et al., 2014).

The prevailing economic environment is an indicator to review business fit in a given region or country. Even if the short-run economic environment is not conducive to profits, a company may decide to enter an overseas market in anticipation of favorable long-term economic prospects, such as growing political stability, declining inflation, or low wage rates. However, the long-run perspective is the most critical decision factor, which provides the firm sufficient resources to endure waiting for the future favorable environment. The market attractiveness of Brazil may be described from this point of view. Major emerging markets like Brazil, China, Russia, and India have enhanced economic and political attributes as discussed below:

- Physically large markets
- Growing population
- Representing a wide range of products

- Strong growth rate
- High participation in economic reforms
- Regional/global political importance
- Regional development drivers
- Lead managers in neighborhood and regional trade
- Contemporary infrastructure
- Generally liberal policies.

Policy-related risks dominate the concerns of firms in developing countries. Uncertainty about the content and implementation of government policies is the top-rated concern, with other significant risks including macroeconomic instability, arbitrary regulation, and weak protection of property rights. These risks cloud development opportunities and reduce incentives to invest productively and create jobs.

As competition in the global marketplace is increasing continuously, most companies are also penetrating the low-end competition in order to avoid congestions of firms in urban areas and explore alternative markets to secure the status of market leader. There are many industries competing in the global market to acquire customers and retain existing ones. In this competitive dynamics every firm lives in fear of low-end competition, wherein a company offer much lower prices for an apparently similar product (Porter, 1998). A majority of such low-end firms fall into the categories of strippers, predators, reformers, or transformers in sustaining market competition. Such categories of firms are defined by functionality of product and convenience of purchase. Stripper firms, for instance, typically enter a market with skeletal offerings, limited functions, and usually offer convenience services. Large firms have significant advantages for combating low-end competition, but they often hesitate because they fear that their actions will adversely affect their current profit margins. Thus new and growing firms in a competitive market environment need to find the response that is most likely to restore market calm in the least disruptive way. Market leader firms could choose to ride out the challenge by ignoring, blocking, or acquiring the low-end competitor, or decide to strengthen their own value proposition by adding new price points, increasing the level of benefits, or dropping prices (Potter, 2004).

Global market competition has obliged large companies to operate on economies of scale by reducing their cost and staying competitive in the market with reference to price and services. When low-cost competitors emerge in a given marketplace, one of the toughest decisions to be made by firms with premium products and brands is whether to respond to such competitive threats. For example, Ryanair emerged as a low-cost airliner and its entry into the European aviation industry market has been a huge success against the large airliners. Likewise, the world's leading telecommunications companies are highly active, competing with one another to recognize the threat from the Chinese low-cost competitor Huawei, now a leader in fixed-line networks, and mobile telecommunications networks. The example of Vizio, a little-known LCD TV supplier, may also be cited: it overtook the premium brands in five years to become the North American market leader in large-format TVs. Complacency and arrogance can produce blind spots that delay a response and leave incumbents vulnerable (Ryans, 2010).

But the initial impact of low-cost players on incumbent companies may not be the most important consideration. If markets are relatively easy to enter, a number of low-cost competitors may do so. There might be enough business for everybody at first, with little direct competition between the low-cost players. Economic geography in an era of global competition exhibits many inconsistencies in the marketplace. A theoretical understanding reveals that location is no longer considered to be a source of competitive advantage. Open global markets, rapid transportation, and high-speed communications allow any company to source anything from any place at any time. Geographic, cultural, and institutional proximity provides firms with special access, closer relationships, better information, powerful incentives, and other advantages that are difficult to tap from a distance. Competitive advantage lies increasingly in local business hub, customer relationships, and motivation that distant rivals cannot replicate (Potter, 1998).

Global retailing firms build their strategies to resolve regional disparities in their strategies by coordinating and integrating strategy implementation activities that involve centralization, standardization, delegation of authority, and local responsiveness. In the global marketplace India and China have made significant progress in multiple economic and commercial sectors. China has emerged as a manufacturing base for the world in providing quality products at low prices, and also leading the retailing operations in domestic and international markets. As more firms turn their attention to compete in emerging markets, they strive towards developing a viable alternative to sustain competition (Saran and Guo, 2005).

In the highly competitive and global marketplace of today, the pressure on organizations to find new ways to create and deliver value to customers grows ever stronger. The Asian economies other than Japan grew over 6 percent consistently during 2005–06. Positive forces at work in retail consumer markets today include high rates of personal expenditures, low interest rates, low unemployment, and very low inflation. Negative factors that hold retail sales back involve weakening consumer confidence (Rajagopal, 2006a). In the last two decades (1991–2010), technological innovation, logistics, and the supply chain have moved center stage. There has been a growing recognition that it is through effective management of the logistics function and the supply chain that the goals of cost reduction and service enhancement can be achieved. The global marketplace may be described as a spatial network of markets across countries comprising homogenous and customized segments.

In contemporary global market competition, new and intermediate firms co-evolve around shifts in consumer demand, new innovation, working both cooperatively and competitively to support new products, and satisfying customer needs. In a time of increasing market competition, several firms may compete for survival and dominance. Hence it is necessary for firms to develop generic competitive strategies to sustain the market rivalry. Managers of these firms may thus develop a competition matrix and plan appropriate marketing strategies to survive against threatening firms. A competition matrix is an analysis tool that helps in establishing the competitive advantage of a firm. It provides an easy-to-read portrait of the competitive landscape of firms and positions them in the marketplace. This can be a simple two-dimensional matrix, with the main features of firms in one axis and competitive advantages across firms on the other.

There are a number of common strategies adopted by retailers to overcome competitive threats such as price-slashing by competitors and switching behavior of consumers. Such wishful thinking holds that sales promoters will thrive if only they communicate better with consumers during pre-purchase situations and assist in product demonstrations involving consumers to help their purchase decisions using self-reference criteria. Competitive strategies, whether effective or ineffective, moderate the market effect in sales and market share (Berry, 2001). Firms need to ascertain a continuous organizational learning process with respect to the value-creation chain and measure performance of new products introduced into the market. In growing competitive markets large and reputed firms are developing strategies to move into the provision of innovative combinations of products and services as 'high-value integrated solutions' tailored to each customer's needs rather than simply 'moving downstream' into services (Davies, 2004).

With the emergence of virtual shopping and liberalization of economic policies in developing countries all over the world, competition has become like a traditional horse-racing derby in which many companies participate in a neck-and-neck race. In this business game the rules are subject to change without notice, the prize money may alter erratically, the route and finish line are also likely to move after the race begins, new entrants may join at any time during the race, racers may form strong alliances, all creative strategies are allowed, and state legislation may change without notice and sometimes with retrospective effect. Hence, to win the race any company should acquire strategies for outwitting, outmaneuvering, and outperforming competitors.

In this competitive process, a company must understand thoroughly the moves of rival firms from various sources. In a scenario of growing competition, retailer firms should also establish how a customer relationship management and monitoring system can underpin the buying decision-making process through the use of joint project teams and facilitating technology. Development and innovative applications of e-commerce transactions, as well as the integration of available technology, can provide an organization with a unique opportunity to remain competitive within today's global business environment. Although technology plays an important role in gaining competitive advantage for organizations worldwide, information technology professionals, consumers, and e-retailers can ensure proper security measures to overcome the harmful impact of the misuse of these technologies (Medlin and Romaniello, 2008).

Large firms operate on economies of scale in the low-cost market with high differentiation of products and services. Such strategies lead firms in the mass market and drive them to gain high market share. Many firms operate at the same time in a given marketplace and competition among them can become fierce. Some firms operate at high cost but also go for high differentiation of products and services. Firms with such attributes locate themselves in the premium market and struggle for high brand equity. On the other hand, firms that have low differentiation of products and services and a low cost of marketing, operate in niches by following defensive marketing strategies. Where firms have low differentiation of products and services with a high cost of marketing, business growth becomes slow, affecting the brand equity of the firm. If this situation prevails for a long time it may spell disaster for such firms. Many small firms that emerge with high costs and low differentiation choose to stay out of market competition and fail sooner or later, either by shutting down operations or merging with stronger firms. There are many attributes of the competition, some of which are simple to manage while some remain complex, as discussed below:

- Well-informed buyers and sellers
- Identical products
- Independent buyers and sellers
- Geo-demographic monopoly
- Economies of scale
- Collusion
- Profit maximization
- Product differentiation
- Interdependence among firms
- Independence among firms.

It is difficult for companies to develop a geo-demographic monopoly in business as it is unusual to locate a large homogenous consumer segment in an overseas destination. As overseas firms enter the destination markets, there are chances of collisions with local or other multinational companies dealing with similar or identical products and services. As competition grows in the destination markets product differentiation becomes more complex, as companies may not be able to stick to the same price line with innovative products and services. To survive in a competitive marketplace it is important for firms to have an obvious sense of advantage and to drive the business towards its predefined objective. Defining the company's objectives, scope, and advantages requires them to manage the trade-offs amid market competition. If a firm pursues growth or size, profitability will be jeopardized, which may ignore retail customers if the firm chooses to serve institutional clients. Hence, trade-offs in the marketplace will rebound if appropriate decisions are not taken by firms. On the other hand, a firm may derive its competitive advantage from economies of scale, and it may not be able to accommodate idiosyncratic customer needs. Accordingly, growth of local firms may emerge with high brand equity in a niche amid the threats of large firms, while large firms can follow a combination of long-run and short-run strategies to outwit regional firms. However, firms may gain competitive advantage by perceiving cost-effectiveness and other strategies, as suggested below:

- Costs
  - Satisfactory profit margins, and a positive perception of product and company is maintained by low-cost competitors in an industry
- Product/service differentiation
  - The provision of something that is unique and valuable to buyers beyond simply offering a lower price than a competitor
- Niche competitive advantage
  - The advantage achieved when a company seeks to target and serve effectively a small segment of the market
- Brand distinction
  - Brand hiring and alliances
  - Brand equity
- Innovation, growth, and alliances.

It has been observed that cost-effective companies gain higher competitive advantage as they invest resources in building positive perceptions in consumers of the image of the company. Companies that are successful in maintaining low costs with adequate product differentiation derive higher competitive advantage in destination markets. However, the competitive advantages initially appear in niche markets and expand to larger segments of markets. With the advancement of information and communication technology, and growth of various business applications on the internet, some companies opt to create a successful brand on virtual platforms only and allow brand hiring options to brick-and-mortar companies who pay them due royalties for hiring the brand. However, wining a market competition for new incumbent firms is a difficult proposition. Hence, companies predetermine their competitive marketing strategies in many ways, according to the strengths and weaknesses of immediate competitors. Figure 6.2 shows the common competitive strategies applied by multinational companies in overseas destination markets.

The taxonomy of market competition comprises four categories in descending order – market leader, market challenger, followers, and niche marketers. Companies that fall into the categories of market leader and market challenger always enter into neck-and-neck competition, engaging in frontal attacks, as illustrated in Figure 6.2. In a frontal attack, companies identify their closest market rivals and develop

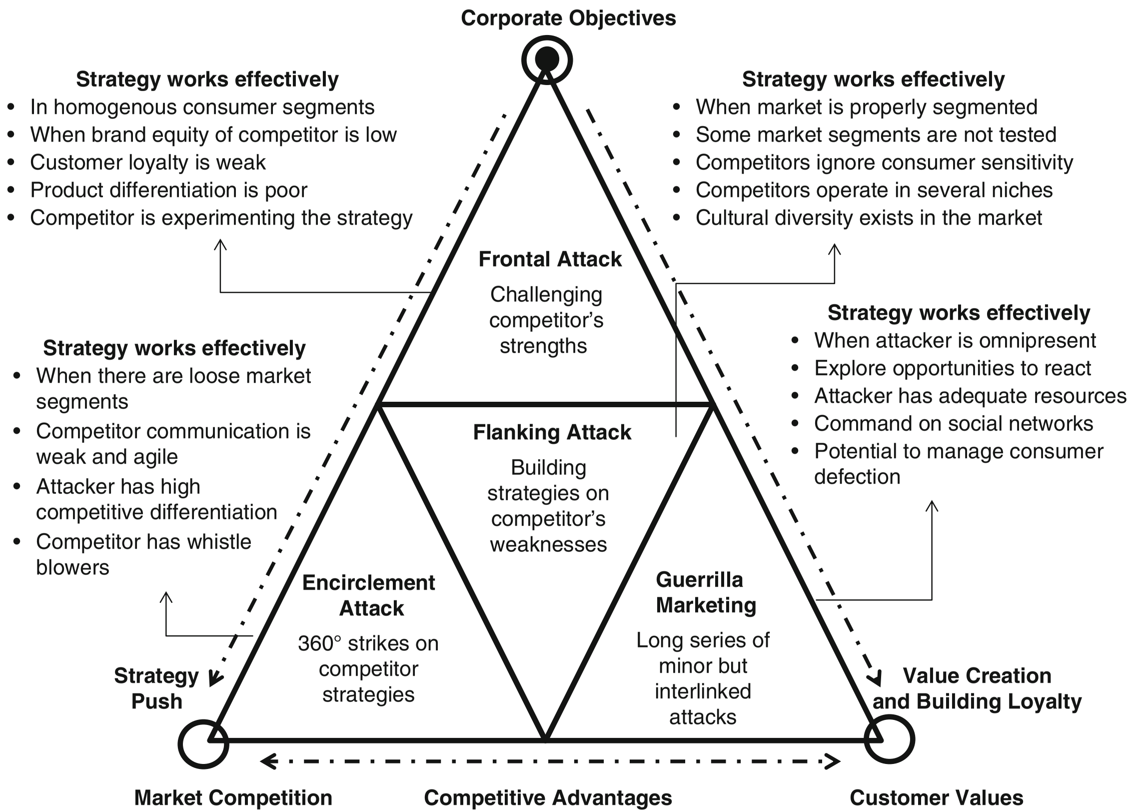

Figure 6.2 Taxonomy and attributes of competitive marketing strategies

competitive strategies challenging each other's strengths, like Coca-Cola and PepsiCo. Frontal attack strategies commonly refer to competitor's product line matching, innovation and technology, consumer price parity, and promotions and sales offers. Such strategies work effectively when companies are operating in homogenous consumer segments, where brand equity and customer loyalty of either company is low, product differentiation of the competitor is weak from the consumers' perspective, and the competitor is in the stage of experimenting with its strategies in the market to attain winning options.

As opposed to the frontal attack, companies often try to build their strategies to take advantage of a competitor's weaknesses and exhibit their competitive advantages to consumers. Such competitive strategy is known as flanking attack. For instance, Fuji Film Company of Japan had built its competitive strategy by focusing on price to develop its competitive advantage against rival photo film company Kodak in the American market during the 1980s.

An encirclement attack strategy to outperform competitors is used by companies in markets where a large number of competitors exist in the same business sector, such as in the retailing, automobile marketing, healthcare, and transportation and logistics areas. The attacking company implements marketing tactics against the competitor around elements of the marketing-mix, from the full range of the 11Ps, comprising product, price, place, promotion, packaging, pace, people (sales-front liners), performance, psychodynamics, posture, and proliferation. Such tactical strategies are unpredictable and have a short-term impact.

Guerrilla marketing is a competitive strategy concept of continuous minor attacks on competitors for a longer period. This strategy is generally followed by small businesses to promote their products or services in an unconventional way when they have little budget to spend. Guerrilla marketing is also considered as an advertising tactic aimed at short-run myopic gains by companies in the market. It involves high energy and imagination, focusing on grasping the attention of the public at a more personal and memorable level. Some large companies use unconventional advertisement techniques, proclaiming them to be guerrilla marketing, but these companies have larger budgets and their brand is already visible in the market.

Competition is found in all marketing functions, including the prices at which products are exchanged, the attributes and qualities of products manufactured, the volume of products exchanged, the methods of distribution, and promotion. Competition-related theories may be categorized in two broad groups – economic theory and an industrial organization perspective. Economists of the former group have discussed many different models of competition. The focus of their work is the model of perfect competition, which is based on the premise that, when a large number of buyers and sellers in the market are dealing in homogenous products, there is complete freedom to enter or exit the market, and everyone has complete and accurate knowledge about everyone else. The latter group in reference to industrial organizations postulates that a firm's position in the marketplace depends critically on the characteristics of the industry environment in which it competes. The industry environment comprises structure, conduct, and performance. Structure refers to the economic and technical perspectives of the industry in the context in which firms compete. It includes concentration in the industry, such as the number and size distribution of firms, barriers to entry, and product differentiation. Competition theories have further laid emphasis on market competition on functional dimensions, which include non-price competition towards product differentiation and quality competition. Products are differentiated when the products of different firms are not perfect substitutes, and companies may compete by changing the characteristics of the product they sell. Such strategy may not be necessarily appropriate to make a product better than that of the competitor, but may serve to differentiate it in order to create an appeal in a different *market niche*.

Niche strategies provide a classic instance of such situations. No market is entirely homogenous. There are always groups of customers that differ in terms of their needs. The possibility of the occurrence of niches, which individual competitors may occupy, always exists. Niches are unlikely to be complete, separate, and well-defined. There will always be overlap. However, if such niches are rather subtly defined they may not always be obvious to all the players. Thus niche players may appear to compete but in practice do not do so, or at least not fully. The competitive strategy of product differentiation helps the company by enhancing the product-mix through introducing many varieties, which increases the range of consumer choice. However, it divides the market, leading to higher prices and costs for the firm.

From an economist's point of view this definition of competition appears closer to the category of monopolistic competition. In this case it is assumed that a large number of buyers and sellers exist, with each seller producing a variety of the essentially differentiated product that characterizes the product group. The distinctive features of each reflect on the firms in gaining small positive monopolistic advantages. This in turn accords the firms in question some of the features of the monopoly described earlier, but at a more modest level. The precise level of monopoly power enjoyed by each of the firms depends crucially upon the number of competing varieties in the market, and the distribution of consumers' preferences. There are four competitive market conditions that have emerged after globalization across countries:

- Monopoly – Single manufacturer or seller to multiple buyers
- Monopsony – Multiple manufacturers or sellers to single buyer
- Duopoly – Two manufacturers or seller to multiple buyers
- Oligopoly – Multiple manufacturers and sellers to multiple buyers.

Since the 1960s, however, sophisticated economic theories on how firms work have been developed. These have examined why firms grow at different rates and have tried to model the normal lifecycle of a company, from fast-growing start-up to lumbering mature business. The more competition there is, the more likely are firms to be efficient and prices to be low. Economists have identified several different sorts of competition. In perfect competition every firm is competitive and plays in the market as a price taker. Where there is a monopoly, or firms have some market power, the seller has some control over the price, which is probably higher than in a perfectly competitive market. By how much more will depend on how much market power there is, and on whether the firm(s) with market power are committed to profit maximization. Firms earn only normal profits, the bare minimum profit necessary to keep them in business. If firms earn more than this (excess profits) other firms will enter the market and drive the price level down until there are only normal profits to be made.

Market power may be stated as when one buyer or seller in a market has the ability to exert significant influence over the quantity of goods and services traded or the price at which they are sold. Market power does not exist when there is perfect competition, but it does when there is a monopoly, *monopsony*[2] or oligopoly. The basic attributes of the monopolistic competition include:

- Many buyers and sellers
- Differentiated products
- Sufficient knowledge
- Free entry.

In the contemporary analysis of competition and related strategies thereof, it is observed that competitive firms intend to ascertain a continuous organizational learning process with respect to the value-creation chain, and measure performance of new products introduced to the market. In growing competitive markets large and reputed firms are developing strategies to move into the provision of innovative combinations of products and services as 'high-value integrated solutions' tailored to each customer's needs rather than simply 'moving downstream' into services. Such firms are developing innovative combinations of service capabilities such as operations, business consultancy, and finance required to provide complete solutions to each customer's needs in order to augment the customer value towards the innovative or new products. It has been argued that the provision of integrated solutions is attracting firms traditionally based in manufacturing and services to occupy a new base in the value stream centered on *systems integration* using internal or external sources of product designing, supply, and customer-focused promotion (Davies, 2004). Besides the organizational perspectives of enhancing customer value, functional variables like pricing play a significant role in developing customer perceptions towards the new products.

International partnering strategies

The soundness of the economy of a country largely governs consumer confidence, which further determines the buying plans of consumers. A favorable economic environment helps consumers optimize their buying decisions and augment their propensity to spend money. The opposite occurs when economic conditions are unfavorable. For example, the economic environment in Brazil was not encouraging for the various segments of consumers during 1998–99 though inflation was under control. Credit restrictions had a negative impact on consumption during this period. However, after the country had exercised appropriate economic measures to stabilize its economy in the recent past, it was observed that foreign business corporations now consider Brazil to be Latin America's most attractive investment target. International marketers should examine the extent to which their business is vulnerable to economic conditions. For example, in a booming economy, consumers tend to buy durable goods, while in a recession they avoid spending money.

As global competition has grown rapidly since the mid-twentieth century, companies are shifting their strategies to survive in the marketplace through some degree of cooperation with competitors instead of investing resources in outperforming, outwitting, or outmaneuvering their competitors. Business partnerships and alliances have become a common corporate strategy as they result substantially in a win/win business environment and deliver better results than frontal competition as such. However, establishing business partnerships is also risk averse as they can fail if the partners have a mismatch in expectations. Companies should examine potential partnership conditions meticulously to facilitate business cooperation, and choose the right options to implement any partnerships in business (Lambert and Knemeyer, 2004).

Partnership strategies in the twenty-first century have proved effective for Ben Cohen and Jerry Greenfield (Ben & Jerry) and Google co-founders Larry Page and Sergey Brin as each partnership has led to the development of pioneering products and services as well as some of the most successful businesses of recent times. The business partnerships of successful companies have helped emerging companies in determining the most appropriate type of partnership in business.

There are many areas in emerging markets, as listed below, which attract business-partnering opportunities with developed countries:

- Turnkey projects
- Process consultancy
- Consortium production and marketing
- Cooperative ventures
- Strategic alliances
- Buyback agreements
- Corporate chains – technology, retail, consultancy
- Custom hiring – production, branding
- Technology diffusion – creating demand
- Green marketing.

Turnkey projects are handled by companies to provide built-in solutions to revive sick industries in overseas destinations and make them into revived partners in doing business. Overseas turnkey projects are initiated with the political will and approval of revival business partners on win/win terms of business. The concept of turnkey projects is not only economic but also has socio-political motives. In turnkey projects the solution provider company undertakes the entire responsibility from design through completion and architecting the right solution, and shares the business responsibilities. The implementation of a turnkey project is generally oriented towards new goals and is managed as a dynamic system. The owners of the Novotel Suvarnabhumi Airport Hotel in Bangkok planned a five-star hotel in a prime location near the airport terminal. There were some administrative and operational problems in construction of this hotel, which was built on a turnkey basis by the management consultancy group. The management group spent the first few months grappling with those challenges and seeking solutions (Goodwin and Smith, 2007).

Process consultancy for a client is carried out by professional consultancy services to improve the existing manufacturing, marketing, distribution, logistics, or services process. In process consultancy the service providers not only offer research recommendations but also work with the client organization to see that all recommended strategies are properly implemented. Process consultants work with the client towards offering a larger change process through facilitative interventions. Process consulting is a powerful tool, which is used to enhance organizational effectiveness, shorten administrative loops on task management, resolve conflict, and optimize resource use. It helps teams to work together more effectively, and its effects can last long after the consultants have departed from the client organization. In organizational development terms, a process consultancy task may be determined as a specialized type of consultation designed to facilitate organizational teams to deal with issues involving production, business operations, or task administration. Process consultants act as a coach or guide for the organization in implementing the recommendations of a market research project.

Consortium production strategies have become popular among multinational companies since the 1990s in order to stay cost-effective and reduce corporate liabilities in carrying out business at overseas destinations. This strategy is similar to contract manufacturing but is implemented within an agglomeration of small and medium firms at the destination country or across firms in the neighborhood. In a consortium production strategy the parent company maintains product design, control of the manufacturing process, quality control, marketing strategies, and customer relations management while the associated firms in the consortium are engaged only in production activities. The consortium firms receive required training, transfer of technology and knowledge, and are connected through common information and communication networks. This manufacturing process is often appreciated by multinational companies in India, South Korea, Thailand, and other Asian countries. Consortium production through interactions between public and private companies to boost cooperation in the semiconductor industry has become increasingly international. In Japan and South Korea consortium production of semiconductors is supported by government in promoting or inhibiting cooperation, and eliminating any lingering rivalries in the industry that impede the global dynamics of such a high-technology industry (Ham et al., 1998).

Cooperative ventures and strategic alliances among companies are built around similar corporate dynamics. Cooperative ventures involve political moves between countries to establish manufacturing and marketing operations either in the public sector with involvement of the state or in cooperative enterprises engaging members of the society in carrying out business activities. Governments of home and destination countries support cooperative ventures with companies that want to explore international trade without taking on the full responsibilities of cross-border business transactions with a foreign partner. International investors entering into a joint venture minimize the risk associated with outright acquisition of a business.

For example, the Biotechnology Industry Partnership Program (BIPP) is a partnership of the Government of India with domestic and foreign industries, which began in 2005 on a cost-sharing basis. The aim of BIPP is to carry on path-breaking research in frontier futuristic technology areas with major economic potential and make the biotechnology industry globally competitive. Among international investors, the International Finance Corporation, the private sector arm of the World Bank Group, committed equity of up to US$ 4 million to Andhra Pradesh Industrial Development Corporation (APIDC) Biotechnology Fund, a government enterprise of the state of Andhra Pradesh in India. The fund was established by APIDC Venture Capital Ltd, which launched India's first biotech-focused venture capital fund.

In distinction to cooperative ventures, a *strategic alliance* is the most popular tool among multinational companies to expand their production and business operations in destination countries. Commonly strategic alliances are preferred in the following four major business areas:

- Production alliances
- Distribution alliances
- Financial alliances
- Technology alliances.

Strategic alliances are established commonly in partnering supply chains in destination markets to support the international marketing of products. Such relationships require special care and handling. During negotiations with a highly valued partner, companies must balance the need to secure the lowest price possible and the need to maintain and enhance the alliance. The contemporary global trend shows that the most successful strategic alliances are in companies involved in production, distribution, and technology. Companies such as Hewlett-Packard, Oracle, Eli Lilly, and Parke Davis, who excel at generating value from alliances, have a dedicated strategic alliance function.

Companies with a dedicated function are in a position to resolve problems related to the four key elements of strategic management such as knowledge management, external visibility, internal coordination, and accountability. However, alliances are subject to some ambiguities concerning partnerships, interaction, and evaluation that are important at different stages of evolution of strategic alliances. Partner-related ambiguity is most prevalent at the formation stage of the alliance, and interaction ambiguity is often found at the operational stage, while evaluative ambiguity may affect the companies at the outcome stage (Kumar, 2014).

In *buyback agreements* some parent companies sell raw material and technology to other companies to manufacture products according to the standards of parent companies, and enter into agreements to buy back the manufactured products. For example, PepsiCo India Holdings Pvt. Ltd (Pepsi) entered into an agreement with BASIX (a non-governmental organization engaged in microfinance) for promoting contract farming of potatoes in Jharkhand, an eastern state of India. As per the agreement, Pepsi would supply seedlings and receive an assured supply of chips-grade quality potatoes. BASIX was to provide microfinance to the farmers and render training and consultancy for package of practices (POP). Farmers were to receive assured buyback of the produce and also an opportunity to learn modern farming practices. The collaboration was successful in the first year and the project witnessed very high growth in the second year (Bajaj and Bhullar, 2013).

Modes of entry

Many companies begin their internationalization opportunistically through a variety of arrangements that may be described as *piggybacking*. This involves taking advantage of a channel to an international market rather than selecting the country market in a more conventional manner. Piggybacking is an interesting development, in which organizations with little exporting skill may use the services of one that has.

Another arrangement is the consolidation of orders by a number of companies in order to take advantage of bulk buying. Normally these would be geographically adjacent or able to be served, say, on an air route. The fertilizer manufacturers of Zimbabwe, for example, could piggyback with those in South Africa who both import potassium from outside their respective countries. American breakfast cereal products like Post from the owners of the leading US brand, entered the Mexican market via their subsidiary Kraft rather than direct from the USA, thus leading to the rather bizarre situation of packs of breakfast cereals with English language packaging covered with stickers in Spanish.

The most common form of piggybacking is to internationalize by serving a customer who is more international than the vendor firm. Thus, a customer requests an order, delivery, or service in more than one country, and the supplier starts selling internationally in order to retain the customer and increases its penetration of the account. This is particularly common in the case of business-to-business companies and technology-oriented start-ups (Arnold, 2003).

The innovative concept of market entry strategy is based on moving with *consumer space*, which indicates that foreign firms enter the destination market by developing adequate consumer awareness of the products and services prior to launch. This strategy is followed largely by the fast-moving consumer goods manufacturing companies and is termed the go-to-market strategy. Go-to-market planning enables the firm to achieve higher margins, accelerated revenue growth, and increased customer satisfaction through existing sales channels. An effective go-to-market strategy aligns products and services, processes, and partners with customers and markets to deliver brand promise, the desired customer experience, and tangible value. Go-to-market strategy services help technology suppliers overcome market challenges.

Some aggressive firms have clearly defined plans and strategy, including product, price, promotion, and distribution and research elements. Passiveness versus aggressiveness depends on the motivation to export. In countries like Tanzania and Zambia, which have embarked on structural adjustment programs, organizations are being encouraged to export, motivated by foreign exchange earnings potential, saturated domestic markets, growth and expansion objectives, and the need to repay debts incurred by borrowings to finance the programs. The type of export response is dependent on how the pressures are perceived by the decision maker. The degree of involvement in foreign operations depends on 'endogenous versus exogenous' motivating factors, that is, whether the motivations were a result of active or aggressive behavior based on the firm's internal situation or a result of reactive environmental changes (Piercy, 1982).

There is certainly no single strategy that fits all firms, products, and markets. The competitive strategy for an established firm to start a new venture and launch a new product must be shaped by the characteristics of the firm, the market, and other environmental factors. Market entry through expansion of the company draws many challenges to firms considering new business options. Capitalizing on overseas markets often opens doors to new levels of top- and bottom-line growth. Moreover, introducing a new product or service into a new market is an even bigger strategic challenge. A successful entry strategy may conceptualize and implement well-structured entry processes to drive future growth, explore diversified stream of revenues, and augment profit margins. It also addresses new competitors, customers, partners, suppliers, and other market dynamics.

However, there are a number of major modes that a foreign firm may apply for entry into international markets. These common modes for a company to enter the international destination markets include:

- Exporting
- Contractual agreement
- Licensing
- Franchising
- Joint venture
- Strategic alliance
- Wholly owned subsidiaries.

Exporting is a low risk-low investment strategy wherein a company may minimize the risk of dealing internationally by exporting domestically manufactured products either by minimal response to inquiries or by systematic development of demand in foreign markets. Exporting activity requires low capital for a quick start. Exporting is also a good way to gain international experience. A major part of the overseas involvement of large firms is through export trade managed by the various channels involved in the process.

There are several types of *contractual agreements*, including patent licensing agreements, turnkey operations, co-production agreements, management contracts, and licensing. Patent licensing agreements are predicated on either a fixed fee or a royalty basis and on delivering managerial training on manufacturing and the quality control process.

Plant construction, personnel training, and initial production runs on a fixed fee, or cost-plus arrangement are covered under turnkey operation agreements. Co-production agreements were a popular practice among Soviet-bloc countries, where plants were built and then paid for with part of the output. In the Middle East, a management contract requires that an MNC provide key personnel to operate the foreign enterprise for a fee until local people acquire the ability to manage the business independently. Technology licensing is a contractual arrangement in which the licensor's trademarks, service marks, copyrights, or other intellectual property may be sold or made available to a licensee against a compensation negotiated in advance between the parties. This is one of the common tools of franchising a firm to set quality and operational control standards. In the past, multinational companies used licensing for many reasons, particularly for access to a trademark of the company.

Licensing may be understood as one of the varieties of contractual agreements whereby a multinational firm makes available intangible assets such as patents, trade secrets, know-how, trademarks, and company name to foreign companies in return for royalties or other forms of payment. Transfer of these assets is usually accompanied by technical services to ensure their proper use. It also helps in regulating the import and export operations of firms in countries or regions where trade restrictions prohibit the movement of products. A technology licensing agreement usually enables a firm to enter a foreign market quickly, and poses fewer financial and legal risks than owning and operating a foreign manufacturing facility or participating in an overseas joint venture. In considering the licensing of technology, it is important to remember that foreign licensees may attempt to use licensed technology to manufacture products in direct competition with the licensor or its other licensees. Around the mid-twentieth century most industrial firms focused on applying technology assets in their own products and services. As globalization became key for business growth in the late twentieth century and encouraged open innovation, many firms started to actively license out technology. These firms consider technology licensing as a strategic advantage, which may yield technology assets and drive the growth of the firm in the competitive marketplace (Lichtenthaler, 2007).

Franchising is not a business itself, but a way of doing business. It is essentially a marketing concept introducing an innovative method of manufacturing and distributing goods and services. Franchising is a business relationship in which the franchisor (the owner of the business providing the product or service) assigns to an independent entrepreneur (the franchisee) the legal rights to manufacture, market, and distribute the franchisor's goods or services using the brand name for an agreed period of time. The International Franchise Association defines franchising as a continuing relationship in which the franchisor provides a licensed privilege to do business, plus assistance in organizing training, merchandising, and management in return for a predetermined fee from the franchisee.

Franchising has become popular because it allows a much greater degree of control over marketing efforts in the foreign country. In franchising, two important features from a marketing perspective, namely product lines and customer service, are standardized, though cultural differences might require adaptation. Franchising can offer people willing to be self-employed a greater chance of success than starting their own business, but it is a path many people are not aware is open to them. A franchisor's main ongoing commitment to his franchisees is to provide support. The support program should be well defined prior to joining a given franchise group and is likely to cover areas such as staff issues, marketing, and system compliance. There are four possible models of franchising, as discussed below:

- Manufacturer-Retailer: Where the retailer as franchisee sells the franchisor's product directly to the public (e.g. automobile dealerships)
- Manufacturer-Wholesaler: Where the franchisee under license manufactures and distributes the franchisor's product (e.g. soft drink bottling arrangements)
- Wholesaler-Retailer: Where the retailer as franchisee purchases products for retail sale from a franchisor wholesaler (e.g. hardware equipment and automotive product stores)
- Retailer-Retailer: Where the franchisor markets a service, or a product, under a common name and standardized system, through a network of franchisees.

The first two categories cited above are often referred to as product and trade name franchises. These include arrangements in which franchisees are granted the right to distribute a manufacturer's product within a specified territory or at a specific location, generally with the use of the manufacturer's identifying name or trademark, in exchange for fees or royalties. The business format franchise, however, differs from product and trade name franchises through use of a format or a comprehensive system for conducting the business including business planning, management system, location, appearance and image, and quality of goods.

One of the challenges in franchising is the need for meticulous and continuous quality control. Such close supervision of the various aspects of distant operations requires well-developed global management systems and labor-intensive monitoring. Inevitably, the relationship between the franchisor and franchisee must involve the imposition of controls. These controls regulate the quality of the service or products to be provided or sold by the franchisee to the consumer. As effective managerial skills are required, international franchising has become successful largely among these enterprises having long experience with franchising at home before venturing into international markets. Though the franchise system in international business had spread over the three-fourths of the global retailing share by the end of twentieth century, yet prospective franchisors need to consider carefully whether to expand a business by franchising or by opening company-owned outlets. Franchising the business not only enables a firm to overcome resource constraints of limited capital and putting a large number of experience managers on to the corporate roll but also provides a means of trading off certain functions cost-effectively and relatively quickly (Tikko, 1996).

A *joint venture* involves partnership between two or more business firms interested in pooling their resources and expertise to achieve a common goal. The risks and rewards of the enterprise are also shared. The reasons for forming a joint venture may include business expansion, development of new products, or moving into new markets, particularly overseas. The joint venture may offer more resources, increased capacity of production, enhanced technical expertise, and established markets and distribution channels. Entry into an international market would be possible either as a wholly owned subsidiary of any firm or as a joint venture. Joint ventures provide the best partner-like manner of obtaining foreign trade income when the firm chooses to begin a business relationship with a firm in the host country. These two partners could agree upon a contract setting out the terms and conditions of how their arrangement will work. Alternatively, joint ventures may be set up as a separate joint venture business, possibly a new company. A joint venture company can be a very flexible option wherein partners own substantial resources in the company, and agree on a managing strategy. Firms of any size can use joint ventures to strengthen long-term relationships or to collaborate on short-term projects.

The parent ventures managed by *wholly owned subsidiaries* are more successful than shared management ventures, where both companies, parent and subsidiary, contribute on operational strategies. Problems often arise in shared situations because managers of international ventures have communication problems and different attitudes regarding time, job performance, and the desirability of change (Killing, 1982). Firms become multinational companies by setting up manufacturing or marketing subsidiaries overseas and transferring knowledge, which embodies its advantage, from one country to another. That is, knowledge flows from headquarters to overseas subsidiaries. Venturing is a serious business requiring skill, patience, and entrepreneurial flair. Most new ventures involve entering unfamiliar markets, employing unfamiliar technology, and implementing an unfamiliar organizational structure.

An approach of particular promise is the new-style joint venture, in which a small company with vigor, flexibility, and advanced technology joins forces with a large company with capital, marketing strength, and distribution channels (Rajagopal, 2006b). In order to determine the fit between the parent company and its subsidiaries, corporate strategists should evaluate the operational areas, which includes the critical success factors of the business, its parenting opportunities, organizational attributes of the parent company, and the financial results (Campbell et al., 1995).

Export procedures

Export operations involve a variety of activities, including identifying the destination country and markets, analyzing consumer behavior, product designing, technological improvements, competitive pricing, distribution, promotion, negotiations with the governments of countries, public relations, and collecting marketing information. Group export forums are associations of exporters who collectively manage export activities. These forums are recognized by the government of the parent country and provide admissible concessions on export activities such as licensing, taxes, duties infrastructure, etc. Middlemen who have a base in the parent country of the exporting firm also function as one of the channels for indirect exports. The company-based managers are salaried personnel of the exporting firm and they possess the responsibility of total export management. In direct exporting activities, the firm appoints its own export representatives for conducting export operations in the respective markets or countries. Merchant middlemen are a type of intermediary based in foreign markets who buy products on their own and resell these to the identified countries, functioning with substantial operational managers. They may also take up export activities without involving any indirect channel. Such offices may also be networked as an effective distribution channel for a region in order to cater to identify partner countries.

Companies can begin exporting by choosing products to export from the following three categories across destination countries:

- Products listed under open general license
- Product categorized under the negative list
- Restricted list products.

Firms choosing to enter international markets through exporting activities may choose to engage the goods listed under *open general license*, which does not involve a heavy documentation process. However, goods not controlled, regulated or prohibited by other government departments need to be reported to customs prior to export by means of export declaration. On the contrary, regardless of their value, the export of all goods that are controlled, regulated, or prohibited needs to be supported by valid permits, licenses, or certificates required by the government departments or agencies that regulate the export of these goods. An export license is a government document that authorizes the export of specific goods in specific quantities to a particular destination. This document may be required for most or all exports to some countries or for other countries only under special circumstances. A firm also opts for direct exporting as a platform to enter into the destination country. This is the most ambitious and difficult approach as the exporting firm handles every aspect of the exporting process independently, from market research and planning to foreign distribution and collections. Consequently, a significant commitment of management time and attention is required to achieve good results. However, this approach may lead to maximum profits, higher control, and long-term growth.

Exporting the products categorized under the *negative list* needs authorization from the competent authorities in the host country. However, the items listed under the *restricted list* cannot be exported by private agencies. Exports of such products are canalized through an agency predetermined by the government of the host country.

It is essential for an exporting firm to ensure proper documentation for declaration of exports according to exchange control regulations, customs clearance, and transportation of goods to the designated destinations. The declaration of goods for export is required under the local laws of every country. Such declaration documents are of high importance and are binding on the exporter. Besides a mass of paperwork, some essential documents required for a company to engage in exporting are listed below:

- Commercial Invoice
  A commercial invoice is a document used in foreign trade that determines the terms of trade between an exporter and importer of two different destinations. It is used as a customs declaration document provided by the person or a company engaged in exporting products across international borders. Although there is no standard format, the document must include certain specific pieces of information such as the parties involved in the shipping transaction, the goods being transported, the country of manufacture, and the Harmonized System codes for those goods.

- Consular Invoice
  A consular invoice is a legalized commercial invoice. The document is obtained upon submission to the consul or embassy of a country to which goods are to be exported before the goods are sent abroad. A consular invoice is essential to realize e-payment on exported goods. This document enables the customs officials in the destination country to verify the quantity, value, and nature of the goods on arrival.

- Certificate of Origin
  A Certificate of Origin (CO) is a document that is used for certification that the products exported are wholly obtained, produced or manufactured in a particular country. It is generally an integral part of export documents.

- Inspection Certificate/General/Quarantine
  These are obligatory documents specific to a region or destination country on administration of quality supervision, inspection, and quarantine. This is the administrative and law enforcement organ for quality control, measurement, inspection of import and export commodities, entry-exit health quarantine, entry-exit animal quarantine, certification, and standardization in China.

- Shipper's Export Declaration
  A Shippers Export Declaration (SED) is used by the export control authorities in the USA and other countries as it serves as a census record of exports from the country. It is obligatory for the exporting

companies to produce this document during the export process. SED is essential also because the commodity's export license is stated on this document, which serves as a regulatory document. This document is retained by the customs authorities of the country; it does not leave the country and travel along with the other export documents, through the banking channels on the letter of credit or other transactions.

- Export Packing List
  The list is used by the shipper or forwarding agent to determine the total shipment weight and volume and to ascertain whether the correct cargo is being shipped. In addition, customs officials (both local and foreign) may use the list to check the cargo. Packing lists come in fairly standard forms and can be obtained from freight forwarder.

- Dock or Warehouse Receipt
  A warehouse receipt is a document showing that title to goods is stored with someone else and issued by a person or a warehouse company for a prescribed fee. Generally, a warehouse receipt is considered a document of title. A negotiable instrument can also be taken as a warehouse receipt and is often used for financing with inventory as security.

- Insurance Certificate
  Insurance certificates are used to assure the consignee that insurance will cover the loss of or damage to the cargo during transit. These can be obtained from the freight forwarder or publishing house. Note: an airway bill can serve as an insurance certificate for a shipment by air. Some countries may require certification or notification.

- Bill of Lading/Air Waybill
  A bill of lading is a contract between the owner of the goods and the marine carrier. For vessels, there are two types of this document – a straight bill of lading, which is non-negotiable, while another is a negotiable or shipper's order bill of lading. The latter can be bought, sold, or traded while the goods are in transit. The customer usually needs the original document as proof of ownership to take possession of the goods. Air freight shipments require airway bills.

- Sanitary and Phytosanitary (SPS) Inspection Certificate
  This certificate is issued by the concerned department of the exit and entry countries to satisfy import regulations for foreign countries,

indicating that the shipment has been inspected and is free from harmful pests and plant diseases. All shipments of fresh fruits and vegetables, seeds, nuts, flour, rice, grains, lumber, plants, and plant materials require a federal phytosanitary certificate. The certificate must verify that the product is free from specified epidemics and/or agricultural diseases. SPS has been an international agreement among WTO member countries. Now this document is applicable for both agricultural and animal origin products. Some counties, including Saudi Arabia, may require this certificate for certain plant and animal imports. The certificate states that the products are not contaminated by radioactivity. Shaving brushes and articles made of raw hair must be accompanied by a recognized official certificate showing the consignment to be free from microorganisms. Used clothing requires a disinfection certificate. Grain must have a fumigation certificate, and grain and seeds require a certificate of weight. Many countries in the Middle East require special certificates for imports of animal fodder additives, livestock, pets, and horses.

Modes of payment

There are various methods of receiving payment for export, such as cash in advance, open account, consignment sales, dollar draft, and letter of credit. The method of payment and the terms and conditions agreed upon depend on the credit standing of importer, the exchange restrictions operating in the importer's country, and the competition the exporter faces. Usually, the international services of a commercial bank are preferred for receiving payment.

Generally *cash in advance* is not chosen and it only constitutes a small portion of total trade. However, cash in advance is the safest method as far as the seller is concerned as payment for the entire consignment is received before shipping the goods, and it relieves the seller of worry about collection. The buyer may not prefer this method as certain foreign exchange restrictions may prohibit paying cash in advance and there is no guarantee of shipment of the merchandise as specified after the payment is made.

There is also a scanty practice of making payments via *open account*, whereby the goods are shipped without any prior financial deal. This is a risky method of receiving payments unless the seller is dealing with a known party whose financial integrity is held in high esteem. However, such transactions are common between organizations under the same corporate umbrella, as one subsidiary of a company ships goods to another subsidiary in another country. Open-account shipments are also feasible between large organizations in industrialized countries; for example, General Motors may ship parts to Volvo in Sweden.

Another method of export payment is through *export draft*, which is an unconditional order drawn by the exporter asking the importer to pay the designated amount either on presentation (sight draft) or at a future date mutually agreed upon (time draft). Usually the future date specified in the draft is 30, 60, 90, 120, or 180 days after presentation. The draft may name either the seller as the party to receive payment or a bank to handle collection. Alternatively the seller may demand for a *sight draft*, which can be presented in the bank along with the documents of shipment for immediate payment. The seller can realize the payment through such an instrument immediately upon putting aboard the buyer's consignment.

A *letter of credit* (LC) is a very common instrument for settling payment of an export consignment. This document is issued by a bank at the buyer's request in favor of the exporter. It promises to pay the specified sum of money in the designated currency within a specified time upon receipt of shipping documents by the bank. The seller and buyer negotiate over the mode of payment and generally settle through the LC, which reinforces a buyer's integrity by his banker's undertaking. A documentary credit is thus a signed instrument embodying an undertaking given by the banker in favor of the buyer, on presentation of the required documents as stipulated in the export agreement. There are many types of LCs available at banks providing financial support to export consignments. They include:

- Revocable/irrevocable letter of credit
- Confirmed credit
- Transferable credit
- With/without recourse credit
- Revolving letter of credit
- Transit credit
- Back to back credit
- Sight credit
- Credit against time drafts
- Deferred payment credit
- Acceptance credit
- Anticipatory credit
- Credit on installment
- Restricted/unrestricted credits.

A *revocable letter of credit* may be withdrawn or modified by the issuing banker without prior notice to the trading parties while an irrevocable LC does not suffer from any such disadvantages. The revocable LC may be declared invalid by the buyer either in individual capacity or through the designated bank, for any discretionary reason. An *irrevocable letter of credit*, once given to and accepted by the seller, cannot be altered in any way without permission of the seller. In case the irrevocable LC is opened in the buyer's country, an exporter in his own interest may require the credit to be confirmed by the bank in his country. This process endorses the *confirmation* of the creditworthiness of the buyer and the responsibility of the banker issuing the LC in the buyer's country. Commonly, the LC is a non-transferable instrument, but when the business is transacted through a trade facilitator (intermediary) the credit may sometimes be marked as *transferable*. This enables the banker to allow for a third-party payment for the export consignment.

Recourse instruments provide options to the drawer. If a credit is marked as 'without recourse' in the draft, the seller would negate his liability, which is attached to the bill of exchange. A letter of credit having the validity period together with the credit limit enables the drawer to get money in installments up to the maximum limit within the given time limit. Such an LC is known as *revolving letter of credit*. Broadly, there are three such types of instrument:

- Permitting drawl of fixed credit at once
- Permitting drawl of outstanding credit limit at one point of time
- Permitting drawl of credit within stipulated time.

Transit credit is an ad hoc arrangement made by the principal banker with the bank of the country other than the designated destination, for drawing limited credit. *Back to back* credit is also called countervailing credits, and is usually open to the finance intermediary who is not willing to divulge to his overseas buyer the name of the actual supplier. The banker issues the credit in favor of the actual supplier on the strength of the credit established by the overseas buyer in favor of the intermediary. The validity period of such credit is very short, and the sole liability rests with the actual supplier.

The process of quick delivery of credit on submission of the required documents is known as *sight credit*. The drawl of credit allowed on presenting *time drafts* with reference to a specific bank/advice can also be made available to exporters. The parent bank allows such payments after prescribed discounting. Further, a *deferred payment credit* allows the buyer a grace period and confirms to the exporter that the payment will be made as per schedule.

The bank at its discretion may provide the facility of *acceptance credit* to an exporter by agreeing to accept the bills drawn by him against a specific shipment of goods. Similarly, under *anticipatory credit*, the exporter is assisted by receiving an advance before acquiring the goods or shipment. Credit facilities that do not bar the exporter drawing limits from any specific bank or financial institution are called *unrestricted credit*.

Export contract descriptions

The export contract should mention the export costs comprising the fixed and the variable cost. As regards pricing for overseas buyers, the cost evaluation exercise needs to be done on the basis of a number of internationally accepted terms. They are listed below:

- *Ex-works:* As per this term, the buyer holds all responsibility for the product after it is lifted out of the factory of the exporter. The full cost of shipment and transit risk up to the destination is borne by the buyer. Contrary to this, if the necessary documents (including duty taxes paid at the point of the delivery of goods) are made available to the buyer, to enable him to take delivery of goods at the designated destination, this is known as Delivery Duty Paid (DDP) terms of trade. This does not include the Value Added Tax (VAT) unless mentioned specifically.
- *Free on Rail/Truck (FOR/FOT)*: The obligations of the exporter are fulfilled when the goods are delivered to the transporters either by rail or by road.
- *Free on Board (FOB)*: Once the contracted goods are placed abroad by the exporter to the contracted destination, free of cost to the buyer, the exporter sends a 'shipped on board bill of lading' to enable the importer to get the delivery. Similarly, free alongside ship (FAS) means that the goods have been shipped but the buyer needs to pay for the delivery of goods and freight charges. The transit risk is to be borne by the buyer.
- *Cost and Freight (C&F):* In this process the transport cost through the carriage is met by the exporter, but the transit risk is transferred to the buyer. In case the exporter also provides the risk coverage facility to the buyer, the terms of trade is called Cost Insurance Freight (CIF). These terms may be negotiated 'to pay' and 'paid' basis on

the delivery of the goods or at the time of their placing on board, respectively.

- *Ex-ship (EXS) and Ex-Quay (EXQ):* Under an Ex-ship agreement an exporter bears the full cost and risk involved in transporting the goods to the customs limit of the designated destination. The obligation of the exporter is fulfilled at the customs border of the importing country, and it is up to the buyer to obtain the necessary import license and related documents at his own risk and cost. In case the exporter moves the goods/ship into the quay or wharf after settling the legal formalities at the customs, the terms of trade are known as Ex-quay. If such terms of trade are executed for moving goods by rail or road (bordering countries like Pakistan, Nepal, Bhutan, and Myanmar etc., in case of India), the agreement is known as *delivery at frontier (DAF)*.

A firm, which would like to involve itself in international business, may look for its entry into international marketing in many possible ways, including exporting, licensing, franchising, or as a production firm with multinational plant locations. However, at any level of market entry the managerial trade-off lies between extent of risk and operational control. The low-intensity modes of entry minimize risk, for example, contracting with a local distributor requires no investment in the destination country market as the local distributors may own offices, have distribution facilities and sales personnel, or conduct marketing campaigns. Under the normal arrangement, whereby the distributor takes title to the goods or purchases them as they leave the production facility of the international company, there is not even a credit risk, assuming that the distributor has offered a letter of credit from his bank. At the same time such arrangements to enter a destination country may minimize control along with the risk factor. In many cases, low-intensity modes of market participation cut off the international firm from an information network while operational controls can only be obtained through higher-intensity modes of market participation, involving investment in local executives, distribution, and marketing programs.

7
Segmentation, Targeting, and Positioning

The segmentation, targeting, and positioning strategies of a company significantly affect its business performance in the competitive marketplace. An appropriate segmentation of consumers as well as of a market, and methodically positioning products and services, contribute considerably to the success of the company. Segmentation and analysis allows companies to consider buyer attitudes and motivations, customer values, patterns of usage, aesthetic preferences, and degree of susceptibility. This chapter illustrates how segmentation and targeting analysis enlarges the scope and depth of a marketer's thinking to include the position of both new and established products. This chapter provides a significant analysis of the immense diversity of the market and offers an approach for evolving true marketing objectives. The chapter also discusses how market segmentation is required for firms to drive marketing strategies most effectively to reach a customer base in order to stimulate purchase intentions and develop loyalty. Demographics, income level, behavior, interests, affiliation, and occupation are among the most common factors of segmentation addressed in this chapter, although multifactor segmentation embeds in customer-centric marketing practices.

A market segment refers to a group of countries similar in respect to their responsiveness to some aspect of marketing strategy. Market segmentation may be defined as a technique of dividing different countries into homogenous groups. The concept of segmentation is based on the fact that a business cannot serve the entire world with a single set of policies because there are disparities among countries – both economic and cultural. An international marketer, therefore, should pick out one or more countries as target markets. A company may not find it feasible to do business immediately with the entire spectrum of countries forming a segment. In that case, the firm may design its marketing programs and strategies for the countries it does enter and draw upon its experience with these countries in dealing with new markets.

Market segmentation practices

Traditionally market segments are formed by companies on the basis of the demographic attributes of a destination market. Segmentation analysis allows companies to understand buyer attitudes, motivations and values, patterns of usage, competitive preferences, and degree of association with the products. Current practices of market segmentation for consumer and industrial products show that most companies are relying on non-demographic segmentation by focusing on the cognitive dimensions of consumers on perceptions, attitudes, and behavior towards buying (Yankelovich, 1964). Segmentation analysis in reference to cognitive dimensions enlarges the scope and depth of a marketer's thinking to include the position of both new and established products and highlights the diversity of the market to offer appropriate strategies for evolving marketing objectives. However, properly constructed non-demographic segmentation could help companies determine buyers' preferences on products to develop, identify distribution channels, engage in marketing products, and fix how to advertise them for acquiring and retaining consumers.

The market segmentation approaches of multinational companies in the twenty-first century show that non-demographic segmentation techniques are used to manage market communication and advertising strategies. These companies insert commercials with cognitive attributes to enable viewers to identify themselves with the message. However, such a segmentation approach may not be better than analyzing demographics in predicting purchase behavior. Thus, abstract methods of premium segmentation might give corporate decision makers little idea of how to retain customers or acquire new ones by revising their market segmentation strategies (Yankelovich and Meer, 2006). China's growing luxury goods buyers' segment care most about quality and exclusivity, while in other areas such as Hong Kong and Singapore, luxury is more defined by a heightened price point. One of the most common misconceptions about affluent Asian consumers is that they are all the same, and such a notion in market segmentation often proves to be disastrous for lifestyle products of competing companies. Market segmentation strategy should therefore be developed on a psycho-demographic analysis as all markets and consumers have different nuances and no single strategy fits all.

This reality of the markets thus reveals why brands need to be continuously monitored in view of changing consumer dynamics. The broad sweep of market segmentation includes:

- Homogenous
- Heterogeneous
- Geographic segmentation
    - Mosaic and proximity approaches, profit center, cost center, strategic business units
- Niche market segmentation
- Demographic
- Psychographic.

There are markets where consumer preferences are similar to products and services and are largely inelastic to innovative differentiation introduced by competitors for a sustainable period for the homogenous consumer segments. Such segments provide an opportunity to companies to develop uniform marketing strategies towards distribution, retailing and sales, pricing, promotions, and advertising to serve the market area. Consumers of a certain age, interest, propensity of buying, and cognitive attributes form homogenous markets. However, these consumers may not continue with the same preferences as they change in age and social values. For example, different versions of PlayStation launched by Sony Corporation found a homogenous market for their console and games in the age group of 5–12 in the Asian market but preference changed to other brands when children grew beyond this age range.

In the era of growing globalization, market competition, and product differentiation, it is unusual to find homogenous markets. Social media, consumer psychodynamics, and the visual merchandising strategies of various companies continuously update consumer knowledge, and the associated competitive advantages on new products and services. Hence, consumer preferences in the markets today are not polarized into a homogenous segment. Instead consumer defections to various brands are rampant as they tend to experiment with competitive differentiation. Accordingly, heterogeneous markets are found in all developed and emerging market destinations, which drives companies to develop segment-specific marketing strategies across destinations.

Most companies believe that 'emerging markets' signifies Brazil, Russia, India, and China, which is not the reality. The problem with this approach is that it is too simplistic and tends to treat emerging markets as one homogenous whole, when the exact opposite is true. The market segments are heterogeneous and multinational companies such as Procter & Gamble, Unilever, and Nestlé dealing in consumer goods have different strategies for different market destinations. Hence, these companies are also identified as multi-domestic companies catering to heterogeneous markets.

Market segmentation is one of the prerequisites of planning marketing activities for any product. Segmenting, targeting, and positioning are the three basic components of strategic marketing in modern times. The segmentation of a market is a process of identifying the agglomeration of buyers, their wants, purchasing power, geographical locations, buying attitudes, and behavior to facilitate the targeting and positioning of products. There are two common segmentation and segment management strategies followed by multinational companies while targeting their business at overseas destination markets, as depicted in Figure 7.1.

Multinational companies with multi-brand portfolios often overestimate their success in destination markets and overlook the process of segmenting markets while moving to destination countries. Some companies with global brands and homogenous preferences for their products, including new products, launch products into destination markets uniformly across consumer segments with undifferentiated positioning for the segments. This is the *mosaic approach* of market segmentation, which is commonly used by multinational companies for their most popular brands available globally, as illustrated in Figure 7.1. The mosaic approach often leads to consolidation of market segments due to non-responsiveness of consumers, placing brands at risk in the destination market. However, mosaic market segments are largely run as cost centers aimed at reducing costs and maintaining the status quo of sales and market share in non-responsive segments. The growth of business of companies tends to slow as some products in mosaic market segments suffer from consumer dissatisfaction. This can jeopardize the companies gaining sub-optimal profit and hinder the introduction of new products in the market segments.

The *proximity approach* of market segmentation and expansion appears to be a safer technique than the mosaic approach for doing

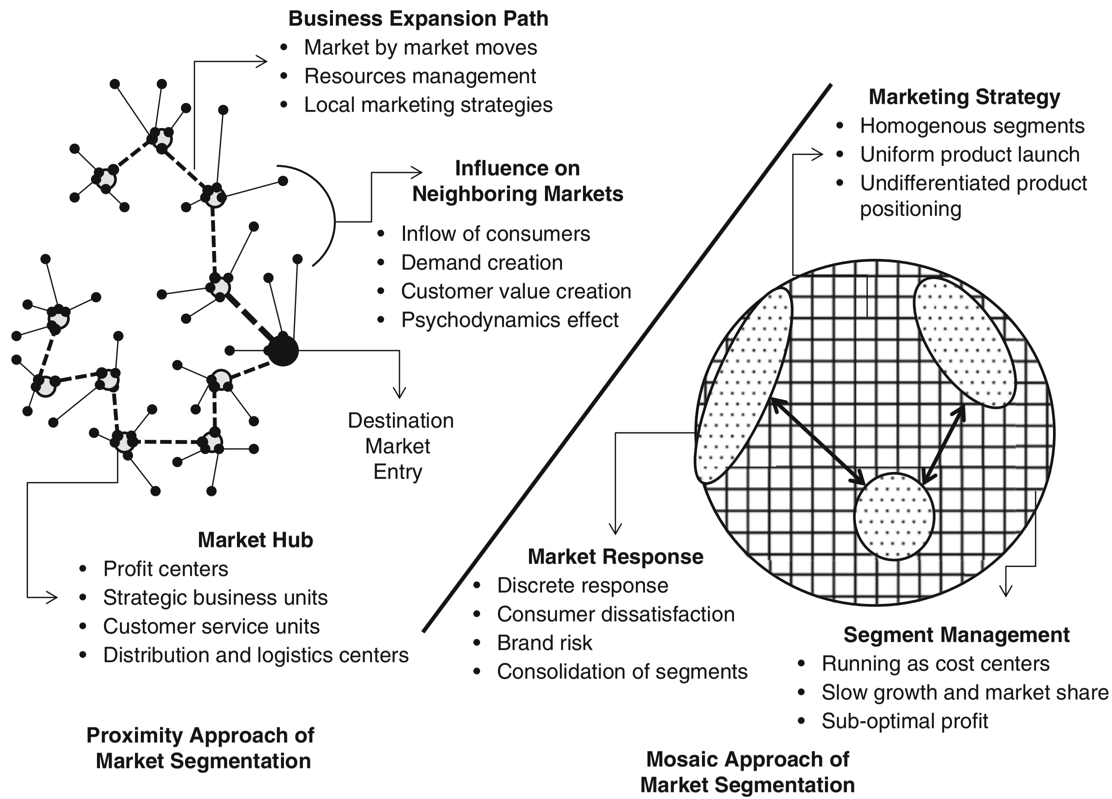

Figure 7.1 Segmentation approaches and management strategies

business in destination countries. In the proximity approach companies choose to enter the destination country through one or more markets that have the potential to influence neighboring markets. The influence of neighboring markets becomes visible in an increased inflow of consumers in the market, creating demand for the products. The market hubs established in the proximity market segmentation process serve as profit centers and strategic business units for the company. The market hubs also serve as the centers for distribution and logistics of the company.

It is essential to identify the segmentation variables and develop profiles of the resulting segmentation for marketing planning. Broadly, the market segments are large groups within the market while a *niche* is a more narrowly defined group seeking additional marketing benefits. There are many bases for segmenting consumer markets, as shown in Table 7.1. Territorial segmentation is organized in terms of a region, whether countries, continents or subcontinents, and habitat identification is classified as villages, towns, cities, and metros, spread geographically according to the size of population. In the demographic category of segmentation, density of population, composition of population, family size, occupational distribution, level of education, and population categories in terms of religion and other sects are considered.

Psychographic segmentation divides the market into groups based on social class, lifestyle, and personality characteristics. This is based on the assumption that the types of products and brands an individual purchases reflect his/her characteristics and patterns of living. Social class

Table 7.1 Physical and behavioral variables for segmenting consumer markets

Geographic	**Demographic**	**Psychographic**	**Behavioral**
Territorial attributes	Density of population	Nationality	Product usage pattern
Habitat properties	Age	Race	Derived product benefits
Population size	Gender	Social class and clan	User status
Climate	Household size	Livelihood systems	Usage frequency
Flora and fauna	Income	Personality groups	Brand loyalty
Market competition	Occupation	Influencing cultures	State of readiness
	Education	Decision-making unit	Attitude towards product
	Population categories		Personal preferences
			Homogeneity or heterogeneity

is the single most used variable in market research, which divides the population into groups according to a socio-economic scale. Lifestyle is another significant psychographic variable that involves classifying consumers according to their values, beliefs, opinions, and interests. There is no standardized lifestyle segmentation model as it depends on varied socio-cultural values and consumer preferences. Advertising agencies are constantly devising new categories in order to motivate to the buying decisions of target consumers. Consumer products companies segment markets by social class for the promotion of products such as automobiles, fashion clothing, home furnishings, and leisure activities.

Psychographic segments are generally constituted according to consumer lifestyles such as the promotion of diet and healthcare products. Marketers use personality factors to segment markets through celebrity communications to match consumer personalities. Personal preference can be categorized in the following three patterns:

- Homogenous preferences for products or brands
- Diffused preferences, showing greater variations for brands across regions
- Clustered preferences, indicating localized preferences of the consumers for the brands available.

The Tata Group of companies in India has used a psychographic segmentation strategy successfully in marketing fashion products like the personal watches and jewelry of its exclusive brands, Raga and Tanishq. Young women in urban India, who are elite and independent in social status, are on one hand attracted towards professional goals and adopting a modern lifestyle but on the other hand also want to retain their ethnic cultural values. This segment is passionate about using premier brands whose symbolic meanings are aligned with their self-concepts, as it would enhance their unique self-expression.

Raga (Classic) was the first watch brand within the known brand chronologies made gender-sensitive by being exclusively launched for women, by Titan Industries Limited. Raga was positioned as an ethnic watch for Indian women. Beauty, passion, and feminine emotions were identified as the core values of Raga, which were reflected in the brand's positioning. Tanishq was another pioneering brand from the same group of companies. It entered as a premium brand in the Indian jewelry market, which had been highly fragmented and unorganized, and functioned in terms of family values and trust. Tanishq offered professional work-wear jewelry as well as traditional jewelry for women as worn in Indian social and family rituals. This appears to be an appropriate example of psychographic segmentation of a market by large companies in the twenty-first century (Kumar et al., 2013).

Besides the above-mentioned variables, the lifestyle of consumers and their personality also provide rich information for segmenting consumer markets. In the behavioral variable category, personal preferences make a substantial impact in identifying consumer segments for products. However, it is difficult to segment industrial markets due to intensive competition and the changing preference of clients. This constraint has deterred companies from trying to segment industrial markets to select competitively advantageous market segments. The problem of segmenting the industrial markets lies in identifying the most useful variables. However, some leading companies like General Electrics, IBM, and Hewlett-Packard do attempt to segment their industrial markets by arranging the marketplace within general segmentation criteria of demographics, operating variables, customer purchasing approaches, situational factors, and buyer characteristics, and form a nested market in the destination country. The segmentation criteria of the largest, outermost nest are derived from the general attributes of industries and competing companies within the nested area. While refining the segments, companies choose the innermost nests as dormant hubs because they have specific, subtle, and hard-to-assess traits, which might emerge as future markets upon meticulous architecting by the companies (Shapiro and Bonoma, 1984).

By end of the twentieth century there had been many changes in marketing management tools, techniques, philosophies, and measurements. The philosophy of market segmentation from a product base has migrated to consumer ecosystems with greater emphasis on technology. The growth of technology along with market competition has dramatically altered the market segmentation and purchase decisions of consumers. A new market segment has emerged over bricks-and-mortar segments, popularly identified as virtual segments on online platforms. This segment has succeeded in drawing linkages among products by highlighting those that are preferred, evaluated, or purchased on the internet. However, despite an increase in both the types of market segmentations (physical and virtual marketplaces) customer interconnectedness across markets continues to help companies develop strategic decisions based on the dynamics of market competition in overseas business destinations. The changing globalization rules call for migration from a product market-focused mindset to an ecosystem target-focused strategic mindset for rebuilding market segments and turning the customers dynamic. Ecosystem target market segmentation is based on competition structure analysis, market research, brand footprint analysis, psychodynamics, innovation and technology, total customer valuation, marketing alliances, and the supply chain roadmap (Dass and Kumar, 2014).

The market segmentation process

Information on the above-mentioned variables for market segmentation can be collected by conducting exploratory interviews and focus group analysis to access consumer insights on motivation, attitudes, and behavior. The data may be collected through structured questionnaires comprising broadly any issues related to consumer behavior, brand awareness and brand rating, product usage patterns, product-mix behavior, and demographic and psychographic variables. Factor analysis may be applied to the collected data to establish highly correlated variables, and cluster analysis used to identify a specified number of different segments. The market segmentation procedure must be applied periodically as consumer segments keep changing due to external influences and personal preferences.

The procedure for segmenting industrial markets is different from that for consumer markets. However, the selected industrial market can be further segmented for consumer goods. The major variables to be considered for segmentation of industrial markets are as listed in Table 7.2. The type of the industry, its size, and location constitute the basic physical variables required for segmenting industrial markets. The type of existing technology in use, future prospects, production capabilities, target group of customers for the products of the industry, and the policy of transportation, warehousing, and inventory may be the operational variables used to determine industrial marketing segments.

Pricing is one of the critical elements in segmenting markets for consumer products companies intending to do business in overseas destinations. Companies targeting bottom-of-the-pyramid markets need to identify price-sensitive market segments and develop marketing strategies accordingly. Segmentation based on buying behavior reveals a tremendous differential among consumers towards propensity to spend on preferred product attributes such as convenience, status, and quality. Customer-centric segments need to be identified by analyzing price sensitivity, product attributes, customer perceptions, and tradeoffs of competitors with customers. Building the right market segments will

Table 7.2 Functional variables for segmenting markets

Physical	**Virtual**	**Operational**	**Purchase**	**Casual**	**Personal**
Type of industry	Product and pricing elements	Technology	Purchase policy	Immediate need	Risk factor
Size of industry	Gender orientation	Status of production	Lobby status	Specific order	Brand loyalty
Location	Geo-demographic regions	Customer target	Continuing relationship with supplier	Size of order	Marginal difference in the product
Competition	Supply chain networks	Logistics policy	Purchasing criteria	Legal binding	
				New markets	
				Substitute or complementary products need	

lead to creating the right customer value in the marketplace (Cross and Dixit, 2005).

Leading companies like Nestlé, Procter & Gamble and others have found it difficult to segment the dog food market in the USA as this market is crowded with competition and offers only a narrow space to architect an innovative segment to make consumers aware of the benefits of new marketing strategies. Over the period 2008–13 leading national brands controlled almost two-thirds of the total retail value sales of dog food in the USA. Brand shares of leading players maintained their market share as they had focused on the mass consumer segment. Nonetheless, despite key players' ability to defend their share, the pet food industry has experimented with vigorous consolidation pressures in the post-recession period. Such trends have been fueled by the growth of premium, natural, and healthier pet food product segments, like dry and wet dog food, economy dog food, and healthier dog food. Seeing the strengthened consumer demand for higher-quality products and the growth of the premium segment, modern grocery retailers and mass merchandisers such as Wal-Mart have been looking to gain share by launching private label or niche brands (Euromonitor, 2014).

Above all other risk factors in penetrating such a market segment, brand loyalty among users is a decisive variable in decision-making for segmenting the market for industrial customers. In a given operational area for a company, the market for consumer goods and services can be segmented into five different forms as follows:

- One product in one market: micro consumer segmentation
- Different products in different markets: diffused segmentation
- All products in one market: specialized market segmentation
- One product in all markets: product-specialized market segmentation
- All products in all markets: absolute market segmentation or total coverage

Local companies in the destination market often raise a tough challenge to foreign companies in penetrating destination markets and segmenting markets against their local rivals. Thus, to move into the marketplace of local competitors, multinational companies need to develop differentiated strategies for the market. The elements of the market segmentation process are discussed in Table 7.3.

Table 7.3 outlines the appropriate corporate strategy to implement the segmentation process. A key factor in competitive success is to focus

Table 7.3 Constituents of the market segmentation process

Constituents	**Attributes of market segmentation**
Large size	Market must be large enough to warrant segmenting. Do not split a market that is already very small
Differences	Differences must exist between members of the market, and these differences must be measurable through traditional data collection approaches (i.e. surveys)
Responsive	Once the market is segmented, you must be able to design marketing communications that address the needs of the desired segments. If you can't develop promotions and advertising that speak to each segment, there is little value in knowing that those segments exist
Accessibility	Each segment must be reachable through one or more media. Position market communications and product advertising at the right market segments for effective dissemination
Multiple benefits	Segments must not only differ on demographic and psychographic characteristics, but also differ on the benefits sought from the product
Profitability	Companies may expect increasing profits from emerging markets and find more effective ways to reach buyer segments by developing multiple marketing programs, redesigning existing products, and creating new products to reach those segments

on small differences that give a marketing edge and are important to customers. Market segmentation matches consumer differences with potential or actual buying behavior. It may prove more profitable to develop smaller market segments into a target segment. Primary market research is used to collect classification and descriptor variables for members of the target market. Classification variables are used to classify survey respondents into market segments. Almost any demographic, geographic, psychographic or behavioral variable can be used to classify people into segments. Age, gender, income, ethnicity, marital status, education, occupation, household size, length of residence, type of residence, etc. constitute the demographic variables used for segmenting the market. The territorial determinants comprise city, state, zip code, census tract, county, region, metropolitan or rural location, population density, climate, etc. The psychographic variables include attitudes, lifestyle, hobbies, risk aversion, personality traits, leadership traits, magazines read, television programs watched. Behavioral variables include brand loyalty, usage level, benefits sought, distribution channels used, reaction to marketing factors, etc.

All these variables influence the market segmentation process undertaken by multinational companies. The descriptors are used to describe each segment and distinguish one group from the others. Descriptor variables must be easily obtainable measures or linkable to easily obtainable measures that exist in, or can be appended to, customer files. Segment attractiveness can be built by companies considering the following points:

- Market factors
  - Size, growth, lifecycle, price elasticity, bargaining power, seasonality of demand
- Competition factors
  - Intensity, quality, substitution, degree of differentiation
- Economic and technology factors
  - Industry analysis, technology utilization, market infrastructure
- Business environment
  - Political, legal, social, and cultural factors

Companies are often wrong in determining market segments based on consumer perceptions as consumers are not always clear in expressing their support to various business strategies. Usually, companies ask their customers what they want, customers offer solutions in the form of products or services and companies then deliver these tangibles, which customers just do not buy. Thus, market segmentations often fail (Ulwick, 2002).

Shanghai Jahwa, China's oldest cosmetics company, has thrived by astutely exploiting its local orientation – especially its familiarity with the distinct tastes of Chinese consumers. Because standards of beauty vary so much across cultures, the pressure to globalize the cosmetics industry is weak. Nevertheless, as in other such industries, a sizable market segment is attracted to global brands. Young people in China, for example, are currently fascinated by all things Western. Instead of trying to fight for this segment, Jahwa concentrates on the large group of consumers who remain loyal to its traditional products. The company has developed low-cost, mass-market brands positioned around beliefs on traditional ingredients. Many Chinese consumers, for instance, believe that human organs such as the heart and liver are internal spirits that determine the health of the body. *Liushen*, or 'six spirits', is the name of a traditional remedy for prickly heat and other summer ailments, made from a combination of pearl powder and musk. Drawing on this custom, Jahwa launched a Liushen brand of eau de toilette and packaged it for summer use. The brand rapidly gained 60 percent of the market and has since been extended to a shower cream also targeted at the Liushen user. Unilever and other multinational companies lack this familiarity with local tastes; they have found their products appeal mainly to fashion-conscious city dwellers (Dawar and Frost, 1999).

Using niche marketing, segmentation can allow a new company or new product to target less contested buyers and help a mature product seek new buyers. Companies may make more efficient use of marketing resources by focusing on the best segments for the offer – product, price, promotion, and place (distribution). Segmentation in all ways helps firms to avoid sending the wrong message or sending the message to the wrong people. The five functional steps to be considered by multinational companies to determine their segmentation criteria are:

- A market taxonomy for classifying world markets should be developed by companies in reference to political, economic, social, technological, and legal considerations in the host country.
- The countries should be clustered into homogenous groups having common characteristics with reference to dimensions of the market taxonomy.
- The most efficient method of serving each group should then be determined methodologically.
- The group in which the marketer's own perspective (its product/service, strengths) is in line with the requirements of the group should be chosen.

Market segmentation should be considered at any time when there are significant, measurable differences in the selected market. Marketing opportunities increase when customer groups with varying needs and wants are recognized. Markets can be segmented or targeted on a variety of factors including age, gender, location, geographic factors, demographic characteristics, family, and lifestyles. Segments or target markets should be accessible to the business and should be large enough to provide a solid customer base. A business must analyze the needs and wants of different market segments before determining its niche.

Grouping of countries

The countries of the world can be grouped using similar criteria to those for domestic markets. A multinational company may group countries on the basis of a single variable, such as per capita GNP or geographic factors. Similarly, other variables, like political system, religion, and culture, may also be considered as the criterion for grouping countries. The choice of an appropriate grouping technique will depend on the nature of products and services of the company. The following methods are commonly used by multinational companies in grouping countries for developing appropriate business strategies:

- Economic status grouping
- Geographic grouping
- Political grouping
- Grouping by religion
- Cultural classification
- Multiple variable grouping
- Inter-market segmentation
- Portfolio approach.

Grouping of countries by *economic status* is a simple approach based on GNP per capita ranking. Accordingly countries may be grouped into three categories of low income, middle income and high income classifications. Fast-growing countries are those having an annual average growth rate above the median, while slow-growing countries grow less than the median. The grouping of countries with this criterion assumes that market behavior is directly related to income. In the case of discrepancies of GNP per capita among countries or equality between two or more countries, the parameter of purchasing power might be considered by multinational companies in forming their country groups. In these clusters each activity benefits from access to inputs produced by others located in the same area and to a pool of skills, infrastructure, and business services. A sufficiently large market allows for extensive specialization while each company is still able to exploit economies of scale. Furthermore, when manufacturers have access to a broad variety of specialized inputs their productivity improves, their costs are reduced and they can expand sales. As the market expands, room for more specialized products is created with a further lowering of costs. Countries that form a consortium on the basis of the economic factors may further lead to various business advantages through economic diplomacy.

Another common method is followed by multinational companies in grouping countries is on the basis of geographic position and possible networking. Many international companies organize worldwide operations on the basis of *geographically* determined regions, such as South-East Asian, Far East; Eastern, Central, and Western European countries, Pacific and Caribbean countries and the like. The proximity of countries in such regions help in establishing functional trade blocs, and the activities can be monitored and controlled by the predetermined locations. All the countries in the Latin American region may be well managed by having business headquarters at Brazil as its proximity to other countries allows the company to establish better transport and communication networks. Regional trade agreements are also made largely on the basis of the geographic locations of agglomeration of countries around organizations like the Asia-Pacific Economic Cooperation, North American Free Trade Agreement, and Central American Free Trade Agreement. These organizations possess regional economic characteristics and supervise common business arrangements.

Another way of grouping the countries may be in reference to the commonality in *political systems* and diplomatic relations. Such a consortium may refer to countries of democratic republic, communist and post-communist governing systems, and monarchy. The international trading system has been shaped by a blend of political, economic, social, technological, and legal factors and pragmatic thinking for mutual benefit. Trade relations cannot be determined solely on the basis of simple grouping techniques consisting of economic, geographic proximity, political and technological convergence that are defined and agreed upon in a general sense. Practical considerations, politics, and particular expressions of the national interest inevitably intervene to determine positions taken by governments. Some commentators reflect this reality when they refer to a government measure or policy approach as 'bad economics but good politics.' The existing literature on international relations and the theory of politics offers many rich hypotheses and explanations as to why governments might favor international cooperation. The reasons for such engagements include reciprocity in trade liberalization negotiations, cooperation involving participation, expansion of trade and profit, and entering into the stronger international relations for protecting the economic interests of the country and the region.

Grouping the countries by *religion* constitutes an important social factor in most of the dominant cultures across countries. Religion influences lifestyles and also impedes liberal decision-making as it influences and determines societal values to a large extent. As the effect of religion on lifestyle is a relevant criterion for grouping countries, the Islamic countries exhibit common consumer preference for better trade alliances. The religious conglomeration of countries thus provides a better scope for international relations.

Cultural grouping also makes sense since culture plays significant role in developing lifestyle. Some societies are associated with power distance attributes, which refers to the degree of acceptable inequality in the society. Societies where a few people make decisions that are followed by mass of people may be termed high-power distance groups, whereas societies where decisions are made in a decentralized way may be referred to as cultures with low-power distance. Some countries would like to play safe and avoid any risks, and such cultural behavior traits may be grouped. However, there are also cultures that exhibit individualism and function in isolation.

Alternatively, a *multiple variable approach* of grouping countries attempts to combine countries with similar socio-economic and political perspectives into segments. However, it assumes that countries are indivisible and are heterogeneous.

The *inter-market segmentation* approach may be explained in reference to the pharmaceutical industry, which caters to the common needs of consumers of different countries for its innovative drug formulations. Similarly, Mercedes-Benz has a worldwide market niche among customers of same class. Besides, there are some common characteristics of buyers across countries, which have been identified as deal makers, price seekers, loyalists, luxury-oriented, and experimentalists. Deal makers are value-oriented, price seekers exist mainly in competitive and developed markets, brand loyalists are widespread, and consumers with luxurious values and innovators generally refer to developed countries.

The *portfolio approach* of country grouping may be explained through a three-dimensional matrix comprising the factors of country potential, competitive strength, and risk. The country potential approach refers to the market potential for the product or services of the company in a given country based on all economic factors. Broad internal and external factors determine the competitive strength of the market. In a given country the internal factors include the market share of the company, resources, and facilities, while the external factors include industry attractiveness and competition. The major risk factors comprise a broad range of factors such as the financial, political, and business risk in a given country.

Niche marketing

The area of operation or the size of the market also determines consumer responsiveness and effectiveness of delivery of goods and services. Thus, a follower in a large market may be the leader in a small market or niche. Smaller firms normally avoid competing with the larger firms. However, it has been observed that there is an increasing interest of big companies to serve small areas of operation or niches by setting up small business units. Niche strategy would be profitable to firms with low shares of the total market. The main reason is that niche strategy provides total knowledge about the customer segment to the company to enable it to serve better through value addition. Niche marketing strategy provides *high margin* to the company while the mass marketing strategy may provide the advantage of *high volume* to the company. Companies operating in niches may consider the following strategies:

- Adequate size of market
- Purchasing power of the segment towards profitability
- Potential for growth
- Negligible interest to competing companies
- Appropriate skills and resources to serve the niche in a superior fashion
- Well-knit defensive strategy to counter competitor attacks.

The most important issue in niche marketing is specialization. There are three major tasks to be attended to by companies looking to develop a niche marketing strategy – creating the niche, expanding the niche, and protecting the niche. For example, the Food and Agriculture Organization (FAO) has identified developing countries as a potential niche for the food and beverage markets. The FAO stated some years ago that ‘some 100 developing countries produce organic commodities in commercial quantities, most of which are exported to industrial countries and that the tendency so far has been for the rate of demand growth to outstrip the rate of growth in available supplies’ (FAO, 2003). It is also highlighted that for a further expansion of supplies, developing countries were in need of assistance in complying with foreign standards and in establishing international equivalency. However, niches are always risk averse to the attacks of competing companies. Finding a market niche also helps in encouraging foreign direct investment (FDI) with specific focus on products and services. FDI is to some extent firm-specific as each firm specializes in a particular niche of the market.

Targeting and positioning strategies

Targeting the right products to the right consumers is more an art than unlearning marketing science strategies. Most multinational companies engaged in marketing consumer products in emerging markets target teen segments as they have the potential to influence younger and elderly segments of society. In targeting consumer products age is one of the strongest stimulants to attract consumers. Psychologically the young consumer target for a company serves as a hub to push and pull other target segments such as the elderly and children consumer segments to follow the preferences of young consumers. The driving forces in setting the right target consumers in formed market segments are shown in Figure 7.2.

In competitive markets the right target-oriented strategies help in building the psychodynamics, posture, and brands of the company. The constituents illustrated in Figure 7.2 explain that the right target for a company would be one that could catalyze continuous target segments. Catalytic target segments are formed by companies making their products competitively attractive by observing the social and peer trends that could well manifest the brands and drive consumers to stay with the company. Most companies at the edge of global competition today realize that their efforts should be focused on the right targets at the right time, addressing the changing lifetime value of their customers in overseas markets. Yet, few companies need to come to terms with the implications of such ideas for their marketing management. Cadillac, for example, enjoyed outstanding brand equity with many customers through the 1980s, but by the end of twentieth century people who had loved Cadillac brand had become old. So General Motors is now engaged in reviving its targets for Cadillac and trying to reposition and refurbish tired, tarnished target consumers.

The term 'positioning' refers to placing a brand in that part of the market where it can receive a favorable reception compared to competing products. Because the market is heterogeneous, one brand cannot make an impact on the entire market. As a matter of strategy, therefore, a product should be matched with the consumer segment of the market in which it is most likely to succeed. The product should be positioned so that it stands apart from competing brands. Positioning tells what the product stands for, what it is, and how customers should evaluate it. Positioning is achieved by using marketing-mix variables, especially design and communication. Although differentiation through positioning is more visible in consumer goods, it is equally true of industrial

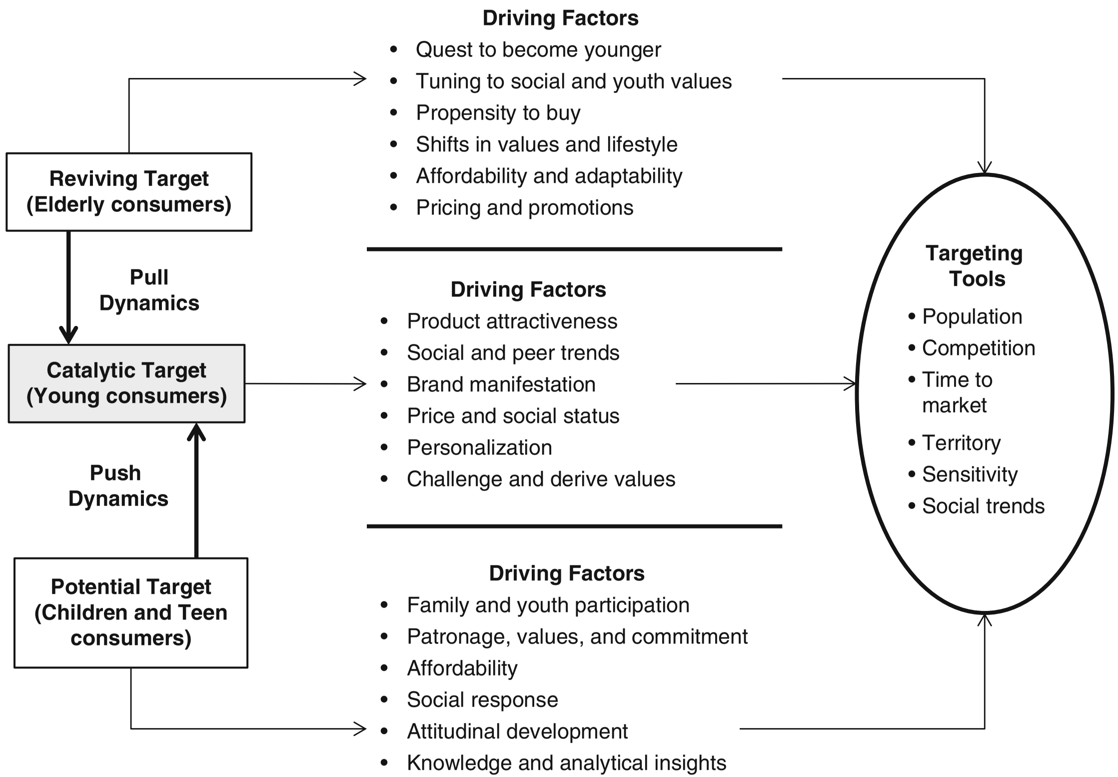

Figure 7.2 Variables involved in the targeting process

goods. With some products, positioning can be achieved on the basis of tangible differences (e.g. product features); with many others, intangibles are used to differentiate and position products.

Fabricators of consumer and industrial goods seek competitive distinction through product features. Some product features are visually or measurably identifiable, some cosmetically implied, and some rhetorically claimed in reference to real or suggested hidden attributes that promise results or values different from those of competitors' products. The offered product is differentiated, though the generic product is identical. The desired position for a product may be determined using the following procedure:

- Analyze product attributes that are salient to customers
- Examine the distribution of these attributes among different market segments
- Determine the optimal position for the product in regard to each attribute, taking into consideration the positions occupied by existing brands
- Choose an overall position for the product (based on the overall match between product attributes and their distribution in the population and positions of existing brands).

The positioning of beer may be considered as an example to explain this concept. Two positioning decisions for beer that a company may choose are light versus heavy and bitter versus mild. The desired position for a new brand of beer can be determined by discovering its rating on the attributes and by considering the size of the beer market. This market is divided into segments according to these attributes and the positions of other brands. It may be found that the heavy and mild beer market is large and there are many companies in business competition. The light and mild beer market has another big segment dominated by Miller and Anheuser-Busch in the USA. In view of the existing market competition the management of a new entering company may decide to position a new brand in competition with Miller Lite and Bud Light.

Disney stores demonstrate how adequate positioning can lead to instant success in the USA. Disney stores earn more than three times what other specialty stores earn per square foot of floor space. Disney has created retail environments with entertainment as their principal objective. As a customer enters the store, he/she sees the Magic Kingdom, a land of bright lights and merry sounds packed full of Mickey Mouse merchandise. From a phone at the front of each store, a customer can get the Disney channel or book a room in a Disney World hotel. Disney designers got down on their hands and knees when they laid out the stores to ensure that their sight lines would work for a three-year-old. The back wall, normally a prime display area, is given over to a large video screen that continuously plays clips from Disney's animated movies and cartoons. Below the screen, at child level, sit tiers of stuffed animals that toddlers are encouraged to play with. Adult apparel hangs at the front of the stores to announce that they are for shoppers of all ages. Floor fixtures that hold the merchandise angle inward to steer shoppers deeper into this money trap. Managers spend six weeks in intensive preparatory classes and training before being assigned to a store. Decorated with attractive illumination and elaborate ceiling displays, the stores have relatively high start-up and fixed costs, but once up and running, they earn high margins. There are different approaches (Rajagopal and Rajagopal, 2011) to positioning as shown in Table 7.4.

Two types of positioning strategies may be identified as single-brand strategy and multiple-brand strategy. A company may have just one brand that it may place in one or more chosen market segments, or, alternatively, it may have several brands positioned in different segments simultaneously.

To maximize benefits on a product with a single brand, a company must try to associate itself with a core segment in a market where it

Table 7.4 Product positioning strategies

Product positioning strategies	**Features of the strategy**
Positioning by attributes	Associating a product with an attribute or end user benefit
Positioning by functional variable such as price and quality of the product	The price/quality attribute is so pervasive that it can be considered a separate approach to promotion
Positioning with respect to use or application	Associating the product with a use or application
Positioning by product user	Associating a product with a user or a class of users
Positioning with respect to a product class	For example, positioning Caress soap as a bath oil product rather than as soap
Positioning with respect to a competitor	Making a reference to competition, as in Avis's now-famous campaign: 'We're number two, so we try harder.'

can play a dominant role. In addition, it may attract customers from other segments outside its core positioning area. BMW does very well with such product positioning strategy. The company positions its cars mainly in a limited segment to high-income young professionals. However, if 20 percent of the sales of this brand were susceptible to a competitor's entry (assuming a fairly high probability that the competitor would have indeed positioned its new brand in that open spot), the actual level of cannibalism should be set at 30 percent. This is because 20 percent of the revenue from sales of the existing brand would have been lost to a competitive brand had there been no new brands. Multiple brands can be positioned in the market either as head-on with the leading brand or with an idea of unique sales proposition (USP). The relative strengths of the new entry and the established brand dictate which of the two positioning routes is more desirable (Rajagopal and Rajagopal, 2011). Although head-on positioning usually appears risky, some companies have successfully carried it out. IBM's personal computer was positioned in head-on competition with Apple's. Datril, a Bristol-Myers painkiller, was introduced to compete directly with Tylenol.

Market trend analysis for effective segmentation

Globalization has opened many routes to marketing including marketing opportunities through the internet and virtual shops. However, amid increasing market competition, the rules of the game are subject to change without notice. In this process a company must understand thoroughly all the moves of rival firms from various sources. The locales of business rivalry have to be spotted to assess their strengths. An intriguing aspect of the marketplace is that the nature of competition can change over time. A technology, company, or product does not need to remain prey to another forever. Competitive roles can be radically altered with technological advances or with the right marketing decisions.

For example, external light meters, used for accurate diaphragm and speed setting on photographic cameras, enjoyed a stable, symbiotic (win–win) relationship with cameras for decades. As camera sales grew, so did light meter sales. But eventually, technological developments enabled camera companies to incorporate light meters into their own boxes. Soon, the whole light meter industry became prey to the camera industry. Globalization has not only accelerated the growth of companies from developed countries that are striving to gain exponential growth in business across market territories, but has also benefitted regional firms by competition in various sectors of business. Hence, market competition in the twenty-first century appears to be random, multi-directional, and omnipresent irrespective of the region, products, and services.

The emerging markets of developing countries have received signals from global competition and are rising fast. However, there are many hidden risks in the rise of potential firms to the global marketplace and changing intensity of existing market competition. For example, previous observations in various research studies reveal that there were four factors that drove Japanese firms' early export growth, namely, strong corporate models and cultures, a domestic market isolated from competition, a compliant labor force, and cohesive, homogenous leadership. But when the firms moved into foreign markets, those strengths became weaknesses. Entrenched in their corporate ways, they were too narrow-minded to look for local insights, and they lacked leaders who had international knowledge. They were also unprepared for contentious overseas labor relations and the sophistication and expertise of their global competitors. Thus, to avoid Japan's fate, emerging giants must change their business models, reduce their reliance on protected domestic markets, learn to cope with diverse labor, and shake up their leadership (Black and Morrison, 2010).

Contemporary global business models explain that firms tend to structure themselves as one of four organizational types: international, multi-domestic, global, and transnational. Depending on the type, a company's assets and capabilities are either centralized or decentralized, knowledge is developed and diffused in either one direction or in many, and the importance of the overseas office to the home office varies. International marketing refers to exchanges across national boundaries for satisfaction of human needs and wants. The various marketing functions coordinated and integrated across multiple country markets may be referred to as global marketing. The process of such integration may involve product standardization, uniform packaging, homogeneity in brand architecture, identical brand names, synchronized product positioning, commonality in communication strategies or well-coordinated sales campaigns across the markets of different countries. The term 'global' does not convey the literal meaning of penetration into all countries of the world.

Many factors determine the nature of competition, including not only rivals, but also the economics of particular industries, new entrants, the bargaining power of customers and suppliers, and the threat of substitute services or products. A strategic plan of action based on such factors might include positioning the company so that its capabilities provide the best defense against competitive forces, influencing the balance of forces through strategic moves and anticipating shifts in the factors underlying competitive forces. In outwitting competitors companies must detect the changes in the strategy game in reference to the market players' status in gaining more knowledge, networking, entrepreneurship, and increasing ambitions. The driving forces of competing firms, their organization, and microeconomic environment need to be studied carefully by the company planning to overtake competitors in the business.

Further in the process of winning the battle of rivals it would be helpful for a company to understand the changing stakes of competitors and forces after such developments. A company can outmaneuver rivals by being more skillful in particular tasks and reshaping the stakes in one or more business arenas.

Outmaneuvering rivals is the core of changing the rules of the marketplace. The strategy for outperforming a competitor is largely based on two basic issues – performance parameters and assessment criteria of the performance. However, the critical parameters may include probing for the following information, as to who is:

- Creating new customer needs that do not currently exist
- Developing and establishing the new attributes of the product
- Establishing new channels to reach all the existing and potential customers
- Reinventing stakes to make others confined to playing catch-up roles
- Creating new capabilities as the source of new products and customer needs
- Creating a knowledge base for driving the capabilities for new goods and services
- Establishing new relationships with channels, institutions, and customers
- Winning or losing in the business battle
- Establishing a new chain of customer delight
- Leading the product race
- Dominating the price/value relationship.

The parameters and assessments of the above actions would help in focusing both the thinking and strategy-building process for navigating through the competition successfully. The current and future strategy of competitors must be considered by any company planning to outwit, outmaneuver and outperform them.

Global competition is observed on both aggressive and defensive dimensions in the market. Companies that are capable of managing appropriate diffusion of technology and adaptation processes among customer segments are found to be highly successful. Competition among multinationals these days is likely to be a three-dimensional strategic game wherein the moves of an organization in one market are designed to achieve goals in another market in ways that are not immediately apparent to rivals. There is growing consensus among international trade negotiators and policy makers that a prime area for future multilateral discussion is competition policy. Competition policy includes antitrust policy (including merger regulation and control) but is often extended to include international trade measures and other policies that affect the structure, conduct, and performance of individual industries. The leading alliances between major multinational enterprises may be seen in reference to production, finance, technology, and the supply chain along with other complementary activities. To compete in major global markets multinational companies manage with substantial financial resources.

Logistics and supply chain management are the art of managing the flow of materials and products from the source of production to the end user. This system in multinational companies includes the total flow of materials right from the stage of acquisition of raw materials to the delivery of finished products to customers. The function of distribution is the combination of activities associated with advertising, sales, and physical transfer of goods and services to retail and wholesale delivery points, as is being pursued by global companies to establish their competitive strength in the market. Logistics management is an important function in the marketing process, and effective logistics management improves both the cost and customer service performance of the company. Globalization of distribution is particularly important for companies using the internet for e-commerce as they can operate on economies of scale with a wider reach of customers.

Conventional differentiation models, in which a company plans for change, implements change, and tries to gain stability in the marketplace, no longer work in an environment of market uncertainty and the behavioral vulnerability of consumers. The changes associated with technology implementation, enhancement of use value of products through design and applications improvements, and delivering competitive advantages to consumers are the key drivers to develop the butterfly effect in the global markets. Companies cannot anticipate all the changes that would yield a one-time impact but adaptation to change in the marketplace is a slow process, which is often discouraging. Hence, butterfly effects in markets responding to change are not spontaneous or rapid, but sluggish and complex, and they often disappear during the period of consumer ice-breaking as consumers learn about the product and service differentiations.

The butterfly effect on competitive differentiation may be best observed when companies develop customer-centric changes and carry out customer segment-based launching of new products. However, there are two necessary conditions to drive the butterfly effect in the global marketplace, namely, alignment of the competitive differentiation model with corporate goals, and minimizing the possibility of failure. Companies should understand that developing competitive differentiation and launching improved products is not part of radical innovation or experimentation but should serve as a confident strategy to revive product attractiveness, rebuild consumer attitudes towards the brand, and strengthen market share and corporate posture against competitors (Hofman and Orlikowski, 1997).

One of the fierce challenges faced by every company towards developing competitive differentiation is the difficulty in outmaneuvering existing competitors. In doing so, a company needs to trigger consumer defection from competitors by creating enhanced value through differentiation in its products or services and inculcating attitudinal changes among consumers. Most companies practice differentiation as a continuum strategy, as suppliers often resist getting involved in the product distribution process due to the uncertainty of consumer preferences. As companies implement perennial changes in their products and services, they need to invest resources increasingly in marketing and sales infrastructure to exhibit their competitive attractiveness. Companies also need to invest in acquainting consumers with the differentiation through the AATAR paradigm, or attributes, awareness, trial, availability, and inducing consumers towards repeat buying.

Most companies engage in developing product differentiation for competitive benefit, a process that moves through an evolutionary process in the initial days of the test market and can become revolutionary as a trendsetter in the market. For instance, the iPod was introduced by Apple Inc. in 2001 as a technologically differentiated personal audio device rival to the existing competition of Walkman, a same-purpose gadget by Sony Corporation. Following an evolutionary process, by

2013 Apple had developed various versions of the iPod, including iPod Shuffle, iPod Nano, iPod Classic, and iPod Touch. This product has driven technology differentiation with style and sustained in the market as a trendsetter that outperforms conventional gadgets from the market competition.

The differentiation process in products or market segments moves through a series of developmental phases that include creativity and innovation, building positive consumer attitude, preparing the market, supply chain coordination, and services management. Each phase evolves with unique strategies and commitments, steady growth, and stability, and ends with a revolutionary period of product and market attractiveness and change. The critical task for market management in each revolutionary period is to find a new set of organizational practices that will become the basis for managing the next stage of product differentiation. Fast-growing consumer companies therefore experience the irony of introducing a major change as advanced solutions to consumer issues and competitive advantage to drive sustainable business growth (Griener, 1998).

Managerially, multi-brand testing process allows a firm to forecast the impact of new product introduction on the market shares of competing brands (including those marketed by the firm) at both the aggregate and segment levels. Hence, the firm can use the results to measure segment-specific cannibalization and switching effects; in addition, it can identify segment-specific adoption patterns following the introduction of the new product. The multi-brand testing process allows the firm to choose customized marketing-mix strategies for different segments after allowing for the effects of competitive retaliation following the new product introduction (Sharan et al., 2007). There are many key marketing concepts including market orientation, marketing competencies and resources, and competitive marketing strategies that explain success among small agro-consumer products companies in the international market. Consumer-oriented innovation is an increasingly important source of new product development and competitive advantage in reference to the speed with which product innovations are pumped into the market (Davenport et al., 2003).

The introduction of new products in the marketplace seems critical for many companies to check the decline in overall sales volume of their products and prevent consumers from switching to other brands. However, timing of launching new products is crucial for their success in the market and companies need to analyze carefully market conditions before introducing (Axarloglou, 2003) new products. The introduction of new consumer products often faces operational problems in managing proper supplies. Manufacturers of consumer goods need to predict the market situation and end consumer demand in order to efficiently allocate production capacity and procure materials. However, the difficulty of obtaining timely and accurate demand data from point-of-sales (POS) calls for alternative solutions to be developed.

A research study offers a solution based on readily available sell-through data from channel partners, such as distributors, to monitor what happens in the market in product introduction situations. The difficulty with using demand information from distributors rather than POS is the bullwhip effect, which distorts demand as the firm moves upstream in the supply chain (Salmi and Holmström, 2004). Physical factors such as time and place involved in buying new products also affect consumer decisions to new products. Confidence and trust in production systems, integrity of regulatory systems, and reliability of suppliers appear to be the major determinants of product-market image as viewed by gatekeepers of the consumer products distribution channel. Understanding of the determinants of consumer confidence in the safety of consumer products is important if effective risk management and communication are to be developed. Consumer perceptions regarding the safety of particular product groups, personality characteristics, and socio-demographics, are potential determinants of consumer confidence in leaning towards new consumer products introduced in the market (de Jonge et al., 2007).

Three distinct dimensions of emotions, including attractiveness, arousal, and dominance, have been identified as major drivers for consumers in making buying decisions. The convergence of sales promotion, consumers' perceptions, value for money, and product features drive arousal among consumers. Consumer values are created towards new products through individual perceptions, and organizational and relational competence. Firms need to ascertain a continuous organizational learning process with respect to the value-creation chain and measure performance of new products introduced into the market (Rajagopal, 2007). Product attractiveness consists of product features, including improved attributes, use of advanced technology, innovativeness, extended product applications, brand augmentation, perceived use value, competitive advantages, corporate image, product advertisements, and sales and services policies associated therewith. These features contribute in building sustainable consumer values towards making buying decisions on new products. The attractiveness of new products is one of the key factors affecting the decision making of consumers, and in turn is related to market growth and sales. The higher the positive reactions of consumers towards new products in view of their attractiveness, the higher the growth in sales (Rajagopal, 2006).

Part III
Developing Functional Strategies

8
Product Strategies

Rapidly growing technology and innovation of competitive products are turning the existing marketplace complex as most companies keep changing their product strategies and also phase in risk and uncertainty in managing their products. This chapter draws together theoretical concepts, strategic thinking processes, and recent research findings, and will help the reader conduct in-depth product analyses in reference to the product-mix. It will also help the reader develop strategies for managing competitive products through various product attractiveness measures. This chapter explains issues on defining products and developing product strategies in reference to determined segmentation, targeting, and positioning. Public policy issues concerning products, new product development, the stage-gate process, and product customization strategies are also critically examined in this chapter.

Most firms try to market products and services in an integrated way to strengthen innovative offerings in competitive marketing, in order to boost revenue and profit streams, and balance cash flows. The hybrid marketing strategies drive companies towards attracting and prospecting new customers, and increasing demand by offering them superior value, for example, the iPod from Apple combined with the iTunes service. Such experiments in marketing new products have revealed the promise of combined offerings with reasonably high market share. However, many companies stumble in offering the right combination of products and services in reference to failure to differentiate, failure to scale, failure to assess markets and prices appropriately, and failure to invest in the brand. A multi-benefit package offers customers an increasing number of add-on features or benefits including *one-stop* convenience shopping (Shankar et al., 2009).

One of the important requirements for marketing efficiency is proper product planning. It is essential for a firm to sell the product, which is the choice of potential consumers, who decide the marketing range or production range of the product. In fact, it is an ambiguous state of affairs. In a practical sense, the scope of production and marketing of products is decided by the marketer, based on profitability and consumer recognition. However, consumers influence the products that stay in the marketing range. It is apparent that introducing products that customers do not buy soon or only in small amounts incur financial losses. Therefore, products in the market should be planned with the objective of optimizing the profit of the firm and efficiency too (Rajagopal, 2006). Companies need to consider the following factors while developing product strategies in a destination market:

- Time – perception differs across cultures
- Space – personal space, individual and group behavior, family
- Purpose – manufacturing, consumption, social conventions
- Fraternity – personal relationships
- Agreements – the way contracts are executed.

Companies should categorically define the status of a product before positioning it in the destination markets with reference to time, territory, and target consumers. The product marketing objectives should be developed upon analyzing the product fraternity and clients' attributes when launching it for industrial use.

Many manufacturers establish product development activities in different countries through colocation of cross-functional teams to foster collaboration among engineering, marketing, manufacturing, and supply-chain functions. Such inter-departmental integration helps companies to develop better product designs, faster time to market, and lower-cost production. Some multinational companies, such as Hewlett-Packard, Eastman Kodak, Hyundai Motors, Haier, Alcatel, and Cummins, have demonstrated the success of such integration of activities in developing customer-centric products and corporate relationships with market players and alliance partners (Eppinger and Chitkara, 2006).

The process of product planning in the international context consists of finding an appropriate match of host country objectives with corporate objectives to determine how to conduct a business in the host country. The product objectives of a company should flow from the definition of its business. The firm sets its product objectives accordingly and decides on the type of products to be offered in the host country. The product offering should provide satisfaction for the customer, and be reflected in the realization of the goals of both the corporation and the host country. The marketing-mix factors comprising product, price, place, promotion, packaging, pace (market dynamics), people (sales force), performance, and psychodynamics (buying appeal) are developed by interlinking each factor. The common goals of foreign firms seeking business in the host country are oriented towards stability, growth, profits, and returns on investment. Most multinational companies develop differentiated products efficiently, make their manufacturing processes flexible, and achieve higher market share. These firms attain higher product marketing strength in the market as they focus on developing one product at a time and share components and production processes across a platform of products.

Product conceptualization is widely accepted as a key activity in architecting the product hierarchy with interrelated and interdependent products. In product conceptualization, customer requirements play a crucial role. In the competitive and globalized business environment, one decisive factor for a company to outperform its competitors is its ability to incorporate customer preferences in new product development projects. A study has established an effective measure for evaluating demographic customer characteristics and detecting demographic customer differences in product conceptualization. In this environment, a design knowledge hierarchy needs to be postulated by the company for representing design knowledge (Yan et al., 2007). As product complexity and the rate of market change dramatically increased over the twentieth century, firms found it increasingly difficult to forecast market demand for product and match requirements in their development processes. With continuously expanding market competition there exists the problem of improving forecasting to increase product development agility. These strategies can help firms increase their agility and position themselves to succeed in accelerating and more turbulent markets (Thomke and Reinertsen, 1998).

Most companies become engaged in developing differentiated products efficiently by sharing components and production processes across a platform of products, and make their manufacturing processes more flexible, which enables the company to take market share away from competitors that develop only one product at a time. The platform approach also enables companies to manufacture high volumes of products tailored to meet the needs of individual customers. A platform is determined as a collection of assets comprising components, processes, knowledge, people, and relationships that is shared by a set of products in a company. The platform-planning effort involves product planning, in reference to which market segments to enter, customer needs in each market segment, and the type of product attributes that could appeal to customers over competing products. Companies, while working on product designs, develop their product platforms considering customer needs, sustainable product architecture, and the nature of competitive differentiation, in the search for long-term customer satisfaction (Robertson and Ulrich, 1998).

Managing products

Analysis of the constituents of product-mix is an essential dimension in evolving a product plan. The product line is one of the constituents of product-mix, exhibiting the length and width of the range of products. The analysis of the product line depends on two important information sources, namely, volume of sales and profit on each item, and competitors' product line in the same market or segment. The product line manager of a company should be aware that each item in the product line contributes considerably to gross sales and profit. The manager has to collect the item contribution record of the product line. The sensitivity of the product line can be identified with reference to volume of sales across other products within the product line. It may be appropriate for a manager to shorten the product line to reduce marketing expenditure on non-profit items. Analysis of the product line also requires awareness on the market profile to plan the positioning of the product in a competitive environment. Product managers should acquire skills in positioning the products within the product categories against competitors' product-mix. In order to perform this task, product line mapping should be meticulously carried out. Such an effort would also be beneficial in identifying market segments according to customer preference. The different components of the product line analysis and tasks involved in managing products in destination markets are itemized in Table 8.1.

A product of a specific category can be stretched downward by repositioning it from premium to mass consumer segment or stretched upward from mass to premium consumer segments by introducing appropriate value additions. In other words it is the responsibility of the product line manager to establish a positive correlation between

Table 8.1 Product line analysis: tasks and approaches

Analysis components	**Task**	**Approach**
Sales and profit	Identifying vulnerable items on the product line	Quantitative and time-series data on variables
Market profile	Product positioning	Competitive product profiles analysis – physical and monetary
Line length	Optimal length comprising a number of items	Analysis of stretching and filling options
Stretching	Increasing the product line	Downward/upward
Filling	Adding new/missing items	Lowering the product price or new launch
Featuring	Increasing profit and volume of sales	Customer orientation to be made at high end of line with a matching price
Pruning	Scanning items on the product line to optimize profit and reduce marketing expenditure	Cost-effective decision-making, eliminating low sales items
Modernization	Product diversification and new product line	Market-segmentation, demand analysis, and pricing strategies

the number of items and the sale/profit targets of the company. The product line should not be constant. It has to be lengthened over time, systematically in two ways – by stretching or filing. The line can be stretched either downward or upward or both ways, depending upon the range of competitors and simultaneously existing product lines in the market. A downward stretch results in selling upper-end products initially at cheaper rates. This strategy has to be used very carefully, as losses may pile up through volume of out-fashioned stock. However, the item image largely depends on the brand name. An upward stretching of the product line is risk averse. Such an approach allows selling the product line items at a high price, as managers are attracted by higher growth rates and profit margins. However, there always remains a threat from higher-end competitors in terms of price 'fall-out,' and from lower-end competitors in terms of introducing a substitute at a lower price. Finally, the sales personnel of the company and distributors have to manage the crisis. A company at the stage of 'maturity' of its growth cycle may use both upward and downward stretching of the product line in different market segments. Adding new items or missing items to the sales stream of the market can also stretch the product line. The featuring of the product line items indicates that a few of them have been selected and are being set at a high price and sales target.

It may be observed that during Christmas all consumer goods and durables are sold at relatively higher prices as sales managers motivate the customers to buy goods located at the higher end of the product line. However, in product line analysis pruning is also essential to identify low-sales items on the product line and drop them from the marketing program and to diversify items on the line to modernize the offering.

The firm's decision to add a product to the line is influenced by its compatibility with reference to marketing, finances, and environment. *Marketing competitiveness* refers to the ability of a firm to conduct marketing operations against competing companies. The firm needs to analyze risks pertaining to financial operations and opportunities related to the proposed addition of a new product line. Criteria used in determining the *financial compatibility* of the proposed addition may be the profitability and cashflow implications. Besides, to ensure that a newly added product line would not encounter any legal and political problems, the firm must analyze the factors of *environmental compatibility*, which includes concern for the customer, competitive action, and legal or political problems. The inclusion of a product in the line should not pose any problem for either existing or potential customers. It is observed that most companies are pursuing product expansion strategies, in particular full-stream line extensions ahead. But more and more evidence is indicating the pitfalls of such aggressive tactics. The strategic role of each product becomes muddled when a line is over-segmented. Also, a company that extends its line risks undermining brand loyalty. Some companies, such as Procter & Gamble, General Motors, and a leading US snack foods company, have discovered that a carefully focused and well-managed line can increase profits and sales volume (Quelch and Kenny, 1994).

An international firm should develop country-specific product lines for achieving success in the overseas market. To achieve this viability, the composition of the product line needs to be periodically reviewed and changed. Environmental changes like customer preferences, competitors' tactics, host country legal requirements, and a firm's own perspectives including its objectives, cost structure, and spillover of demand from one product to another, can all render a product line inadequate. Thus, it may become necessary to add new products or eliminate existing products from the product line to customize a product line specific to each country. Alternatively, certain specific products may be designed and developed for a particular foreign country, either locally abroad or in the home country. The extension of domestic products to foreign markets is driven by the international product lifecycle. Many companies develop new products for their home country market and, after they achieve success, introduce them in the international market. As exports grow, the firm may consider setting up a warehouse, a sales branch, or a service center in the foreign locale. Ultimately, the firm finds it more economical to assemble or manufacture the product in the country selected for entry.

Firms operating in the overseas market may also choose to add new products to the line in order to serve an unfulfilled customer need in a particular market overseas or to optimize the existing marketing capacity of the firm in a given market. For example, a dairy firm selling different categories of liquid milk and milk products overseas in developing countries may discover a dire need for cattle feed and veterinary products for dairy farmers to augment the procurement of liquid milk. Hence the firm may add such items in its product line. Alternatively, the same company may establish a good distribution network to serve semi-urban and rural milk producers, though such products may not be directly related to the firm's business.

Product designing

The product and business strategies of a foreign firm should be developed in reference to the macroeconomic conditions of the host country. The definition of the product objectives should emerge from the business definitions developed in accordance with the macroeconomic requirements of the host country. Foreign firms need to analyze whether the success of their product or product line can be replicated in a new market destination abroad and explore the factors that may lead to gaining market leadership. In other words, a decision must be made to select the most appropriate product design strategy considering standardization or customization. *Standardization* refers to offering a common product on a national, regional, or worldwide basis, while *customization* signifies adapting a product, that is, making appropriate changes in it to match local perspectives. A firm may opt for product customization according to the size of market and competitive advantage in the long run. The customization of the product may be chosen over standardization in order to cater to the unique situation in each country. Yet, there are potential gains to consider in product standardization. International marketers must examine all the criteria in order to decide the extent to which products should vary from country to country (Aaker and Joachimsthaler, 1999). If there are no new needs to be catered to make the product offering ready for any market, resulting in a significant cost saving, the firm may decide to standardize its products. However, product standardization may become a risky proposition in the long run due to switching in consumer behavior that tends to change over time. However, some international companies have succeeded in standardization of products for offering them in many countries. The General Electric Company's debacles in the small-appliances field in Germany and Polaroid's difficulties with the Swinger camera in France are classic examples of product standardization. Contrary to this, Volkswagen's worldwide success with the Beetle (classic and sports versions) supports standardization.

During the pre-globalization period product design was most often considered far downstream in the product development process, and it focused on making new products aesthetically attractive or enhancing brand perception through smart and evocative advertising. Today, as the terrain of innovations encompasses human-centered processes and services as well as products, companies ask designers to create ideas rather than to simply dress them up (Brown, 2008). Companies continuously observe shifts in consumer preferences and develop product design strategies combined with brainstorming and rapid prototyping. IDEO, one of the leading design and innovation consulting companies, supports the method of meeting people's needs and desires in a technologically feasible and strategically viable way. The result in its hospital work is more time for nursing, better-informed patient care, and a happier nursing staff. IDEO has also worked on projects in the consumer food and beverage, retail, computer, medical, furniture, toy, office, and automotive industries.

Excessive concern with local customization can be troublesome, too. Holland's Philips Company learnt the hard lesson that it could afford to customize television sets for each European market separately. This internationally popular Dutch company offers its electrical products according to regional standardization based on the relevant power supply categories (in North and Latin America power distribution for the domestic use is 110 volts while in England it is 120 volts and in India in ranges further to 220 volts). However, a greater extent of standardization may be more feasible in case of industrial goods than consumer goods. Non-durable consumer products require greater customization than durables, because they appeal to tastes, habits, and customs pertaining to destination markets. International markets are not always homogenous, and markets in different countries for a given product are at different stages of development at the same time. This phenomenon may be explained through the product lifecycle concept wherein products go through several lifecycle stages over a period of time, and at each stage different marketing strategies are appropriate. There are four stages, usually identified as introduction, growth, maturity, and decline even for products distributed in overseas markets.

In developing a market environment, firms should develop their product policies in accordance with the requirements of local markets. If customer needs tend to be at a basic level and the alternatives in the home market are weak, it would be appropriate for a firm to select standardized products from its existing product line. Under such circumstances, a firm may decide to offer a narrow range of choices in product selection at a local market level. This would help in confirming cost-effective and high-profitability product offerings in developing markets. General Motors uses this strategy. The company has developed a special automobile for use in rural areas in South-East Asian countries such as the Philippines, where roads are rough and ready. The chassis can be constructed from steel bars that come in a kit, and it requires only simple tools for assembly. The engine and transmission are then mounted onto the frame together with two seats and a canopy. The vehicle comes from a global brand leader in automobiles, is cheap, runs high off the ground, and is easy to repair. Such a product policy is developed specific to the requirements of the region keeping in view customer preferences in terms of use value, affordability, and convenience (Badaracco Jr., 1988).

However, product adaptation to match local conditions involves consideration of many cost factors, and it is necessary for a foreign firm to perform thorough *cost-benefit analysis* prior to making decisions on product policy. It is necessary for companies to consider the following decision drivers while developing product design:

- Financial goals
  - Achieving profits targets, market share, stakeholder value, investment
- Sales and market share growth
  - Long-term goals and profitability
- Competition
  - Strategies in the marketplace and counter actions to competitor moves

- Lifecycle considerations
  - Repositioning and relaunching of products, diversification decisions
- Technology
  - Innovation, new-generation products, high-value products
- Globalization
  - New opportunities, penetration, skimming, brand-building, alliances
- Regulations
  - Host country regulations on products, e.g. environment, green consumerism
- Cost factors
  - Production cost and marketing costs, commercialization economics
- Invention
  - Research and development, breakthroughs
- Demographic and lifestyle changes
  - Need for new products, shifts in consumer behavior, fashion, change proneness
- Customer request
  - New product development on customer demand – high-tech and industrial products
- Supplier initiatives
  - Demand by distribution channels for specific products
- Alliances
  - Collaborative efforts of new product development in terms of co-branding, technology partnering, retailing, and distribution.

Manufacturing costs will relate to research and development (R&D), physical alteration of the product's design, style, features or changes in packaging, co-branding, performance guarantees, and the like. The cost structure in manufacturing customized products carries high variable costs while standardization brings certain cost savings due to predetermined quality control and manufacturing processes. Among various cost factors, direct and indirect, it is difficult for a firm to quantify the opportunity cost. If a product is customized, presumably it will have greater appeal to the mass market in the host country. A benefit-cost analysis would help in determining the cost to customize and realizing such a benefit. The results of benefit-cost analysis on product customization should be compared with the same analysis applied to standardization. The net difference indicates the relative desirability of the two strategies.

Product design is often considered as a process for creating functional differentiation through added features, superior performance, and so forth. However, with the emergence of more design-oriented companies, product design is increasingly being seen as an important strategic tool in creating preference and deeper emotional value for the consumer. Hence, managers should learn how different design elements can be used strategically to create two very different outcome chains from a consumer's perspective. It is observed that certain design elements are more likely to create functional product differentiation and transactional consumer outcomes, while other design strategies tap a more emotional form of value creation. The emotional focus in value creation is more likely to create desired and powerful outcomes such as loyalty, joy of use, and even passion. Given current business trends towards relationship-based customer management, this emphasis on emotional value creation through product design is particularly relevant (Noble and Kumar, 2008).

Well-built product designs benefit both company and consumer by simplifying decision making, enhancing customer satisfaction, reducing risk, and driving profitable purchases. On the other hand, ill-conceived product designs can leave consumer's money in their pocket, fuel consumer backlashes, put users at risk, and trigger lawsuits costing companies huge amounts. It has been observed that despite such high stakes in product design, manufacturing companies shortcircuit the quality control process in setting built-in or default product designs. Setting default designs in products require companies to balance a complex array of interests, including customers' wishes and the company's desire to maximize profits while minimizing risk. At a basic level, built-in designs can serve as manufacturer recommendations, and more often consumers may not be happy with what they get. Most companies also strive to set default product designs in ways that align with customers' preferences (Goldstein et al., 2008).

As companies are extensively leaning towards customer-centric marketing strategies to gain competitive advantage and achieve sustainable leadership in the market, most company are adopting co-creation of new products by considering customers as core market players. During the co-creation process, companies are engaged in knowledge integration instead of focusing on knowledge transfer. The effectiveness of knowledge integration requires a mutual understanding of the contributions of market players. This is in line with research on design communication, which finds that the quality of the co-creation of new products is dependent on the process of creating a shared understanding (Dong, 2005). In developing collaborative product designs, managers should consider the following perspectives:

- Being an involved consumer of their own and competitor's goods and services
  - Transfer of knowledge
  - Documenting experiences to retain personal knowledge
  - Relativity of needs in reference to average consumers
  - Obtaining information through mutual cooperation
- Critically observe and engage with consumers
  - Critical observation rather than casual viewing
  - Investing time
  - Realistic and precise conclusions
- Talk to consumers and find out their needs
  - Structured, in-depth, one-on-one, situational interviews
  - Engineer trade-offs during product development
  - Technical design information
  - Exploring tacit and product-related needs of consumers.

The co-creation process is considered as a socio-organizational process. In collaborative new product development there are many actors involved in the process. An actor executes three main activities during this social process, starting with the construction of the task, accepting that the task is a part of the system, and 'heedful relating' to other players who perform different and complementary tasks in the system (Weick and Roberts, 1993).

Public policies on product development

Public policy issues in product development and marketing are growing with political concerns towards customer welfare, competition regulation, and efforts towards bringing balance between business and society. Customer-oriented governments regulate companies to use marketing tools that match their products policy with civil requirements. The concept of public policy marketing could enable governments to intervene and control corporate marketing policies in the interest of citizens. Companies need to develop their product policies based on non-commercial marketing outcomes specific to the context of public administration. They should also analyze the social behavior of products and market policies in reference to the public policies advocated by governments in destination markets. Thus public policy marketing, though tested in narrow perspectives with ecological, public health, and advertising concerns in both developed and emerging countries, is expected to grow extensively by the mid-twenty-first century and improve the implementation of the public policy in accordance with public charters agreed jointly by public–private partnerships (Buurma, 2001).

New product developers need to be aware of emerging public policy concerns and consider their impact on product development and launches. Public interventions on new products are indicated in concern about the environment and the results of climate policy, government mandates on fuel emission, and ecological sustainability. Consumer concerns in the USA have led to public policy interventions in product discount advertising, rebate redemption disclosures, rebate redemption processes, and discounted payment processes, with federal guidelines introduced for announcing discounts and discount-related complaints by consumers (Pechmann and Silk, 2013). Product-related public intervention policies envelop various social and public concerns but more prominently concern the following areas:

- Product liability
    - Guarantees and warranties
    - Returns and recall policies
    - Defects in manufacturing
    - Service liabilities
- Design defects
    - Dangerous condition
    - No safety device
    - Inadequate materials
- Product vulnerability
    - Product packaging
    - Manufacturing defects
    - Adequate instructions
    - After-use dangers
    - Legal issues
- Environmental concerns
    - During manufacturing process
    - Exploiting natural resources
    - Disposal of industrial waste.

Various product-related matters, such as breach of product liabilities, user issues due to defects in product design, product vulnerability due to packaging and non-compliance to legal standards, and environmental concerns of products in manufacturing and disposal, attract government intervention through implementing public policies. Socio-political concerns for environmental improvement can lead to imposition of regulations on companies engaged in developing new products that can conflict with market operations and shareholder values. Differentiating products along environmental lines is a conceptually straightforward way of reconciling corporate strategies with public policies. Since the last decade of the twentieth century companies have been complying with various requirements for successful environmental product differentiation. These requirements include developing willingness in consumers to pay for public goods, dissemination of credible information about the environmental attributes of products, and companies defending themselves against imitation and market disruption. More broadly, all companies are made to comply with environmental public policies and to develop corporate business strategies accordingly. The appropriate environmental strategy depends on the fundamental economics of the industry and the internal capabilities of the company (Reinhardt, 1998).

Multinational companies launch new products frequently to maintain their competitive differentiation and for leadership in the marketplace. Continuous introduction of new products and line extensions adds complexity throughout a company's operations, and, as the costs of managing that complexity multiply, margins shrink. Continuous innovation strategies also make it difficult for companies to assure quality in terms of legal requirements, as described below:

- Negligence
  - Manufacturer allows the product to be injurious
- Warranty
  - A promise from manufacturing, retaining, services companies
  - Express warranty – a statement of fact about a product
  - Implied warranty – arises when product is made available for a given use
- Strict liability
  - Seller is responsible for not putting a defective product on the market
  - Defenses – assumption of risk; unforeseeable misuse; not defective
- Misrepresentation
  - Implied use of product, even if not defective.

In order to maximize profit potential, a company needs to identify its innovation fulcrum, that is, the point at which a product extension becomes risk averse as it destroys more value than it creates. The usual ways to manage product line complexities in a company appear to be difficult as the problem is often treated on the factory floor rather than in the market in reference to real consumer-bound situations (Gottfredson and Aspinall, 2005).

New product development

Innovation of new products is a complex process that needs to be carried out meticulously as firms attempt to integrate business and consumer use values in the marketplace. Firms engaged in innovating products should map consumers' needs, the attributes of close substitutes, competitive threats, required product services, and the estimated cost of marketing of the product in different markets. However, the rate of failure of innovative services is high when compared to consumer products. These products largely include credit cards, insurance schemes, hire purchase schemes, investment plans and the like. The major factors that obstruct the process of innovative product development include:

- Limited creativity and paucity of customer-centric innovative ideas on products and services
- Fragmented markets and consumer segments
- Disruptive social networks for the diffusion of innovations
- Social and economic limitations of consumers
- Government policies and legal conditions
- Cost-effectiveness of the process of new product development
- Competitive marketing-mix strategies to promote innovative products and services
- Resource crisis at various levels in the process of innovative product development and inappropriate strategic decisions in launching innovative products on the market
- Innovation lifecycle and sustainability of innovative products.

Most companies consider the process of innovative product development as formidable due to the cumbersome stage-gate process of manufacturing, along with the organizational and market-led intricacies in analyzing key indicators to launch and manage products in a highly competitive marketplace. However, the process of developing an innovative product can be made easier by rationally dividing the chronology of the process into two parts – an early stage, which focuses on evaluating prospects and eliminating bad bets, and a late stage that optimizes the market potential. Pharmaceutical maker Eli Lilly, following this approach, designed and piloted Chorus, an autonomous unit dedicated solely to the early stage. Chorus has significantly improved efficiency of new product development and productivity at the company. Although the unit absorbs just one-tenth of Eli Lilly's investment in early-stage development, it delivers a substantially greater fraction of the molecules slated for late second phase trials at almost twice the speed and less than a third of the cost of the standard process, sometimes shaving as much as two years off the usual development time (Bonabeau et al., 2008).

New products have to be developed by companies with great care. It is necessary to understand the needs of consumers, competitive threats, availability of post-sales services, and the cost of marketing the product. However, in the contemporary era of competition continuous efforts in new product development are essential for companies, though there remains the risk of failure. In the USA new product failure rates in packed products run at about 80 percent, according to some studies, while in services marketing the failure rate is as high as 75 percent. These products are predominantly credit cards, insurance schemes, hire purchase schemes, investment plans and the like, although it should be noted that these results largely depend on the methodology adopted in the survey.

Manufacturing companies should develop effective pre-launch strategies through value stream mapping of consumer preferences and customer relationship management to develop indulgence towards the new products. It is necessary to develop a strong unique selling proposition to position the new product with considerable differentiation from the existing products, estimating the possible threat of product substitution. New products should be launched at appropriate time after getting substantial results from the AATAR applications, which include attributes testing, awareness generation, trial of new product on consumers, assuring availability of products and generating referrals to influence consumers towards new products. It has been observed that initially the growth of new products appears weak and slow in the market and it demands strong organizational support to penetrate in the potential segments. The AATAR applications would increase the rate of penetration of new products in the marketplace.

Companies should strengthen their marketing network simultaneously while launching new products. It has been observed that the failure of new products is often due to the lack of organizational teamwork. Thus, it is required to inculcate efficient team behavior in developing the new products and popularizing them in test market segments. The results of test markets can then be further carried out in larger segments. The process of new product development is illustrated in Figure 8.1. It is essential that a company should conduct brainstorming exercises to understand the basic and secondary needs for the product, list the product attributes, and identify the relationship of other goods and services with the new product.

Idea generation in the process of new product development is a major exercise. This technique calls for listing of all major attributes of the existing product and desirable attributes to improve the same product. The relationship of the new product with existing products also needs to be studied, so that for example developing a new television set may be related to a consumer need for a clock, and multi-channel viewing on one screen, with a microphone attachment and built-in video game. Such forced relationship has to be identified by the company before launching its product. Morphological analysis calls for identifying the structural dimensions of a problem and examining the relationships among them. Need identification can be done by interacting with potential and existing customers in a focus group format. Industrial marketers can identify new product ideas working in association with lead users of the product. However, the brainstorming exercise is also an important tool, which stimulates group creativity. In effective brainstorming the following process is prescribed by Osborn:[2]

- Negative comments in the process may be the stimuli for discussion during the process
- Welcome freewheeling and wilder ideas for better steering
- Encourage more ideas and categorize their utility
- Establish an interrelationship among the ideas for an overall synergy approach.

The new products development and marketing cycle is also affected by an innovation diffusion cycle, which is spread across the same stages as the product innovation cycle. In the introduction stage the diffusion of information is often low as firms tend not to put adequate resources into generating awareness on the innovation. Firms will identify and invite lead users at this stage to test the innovated product and influence early adopters on its usage. Lead users form a small group but act as powerful referral and brand carriers. Firms will usually spend

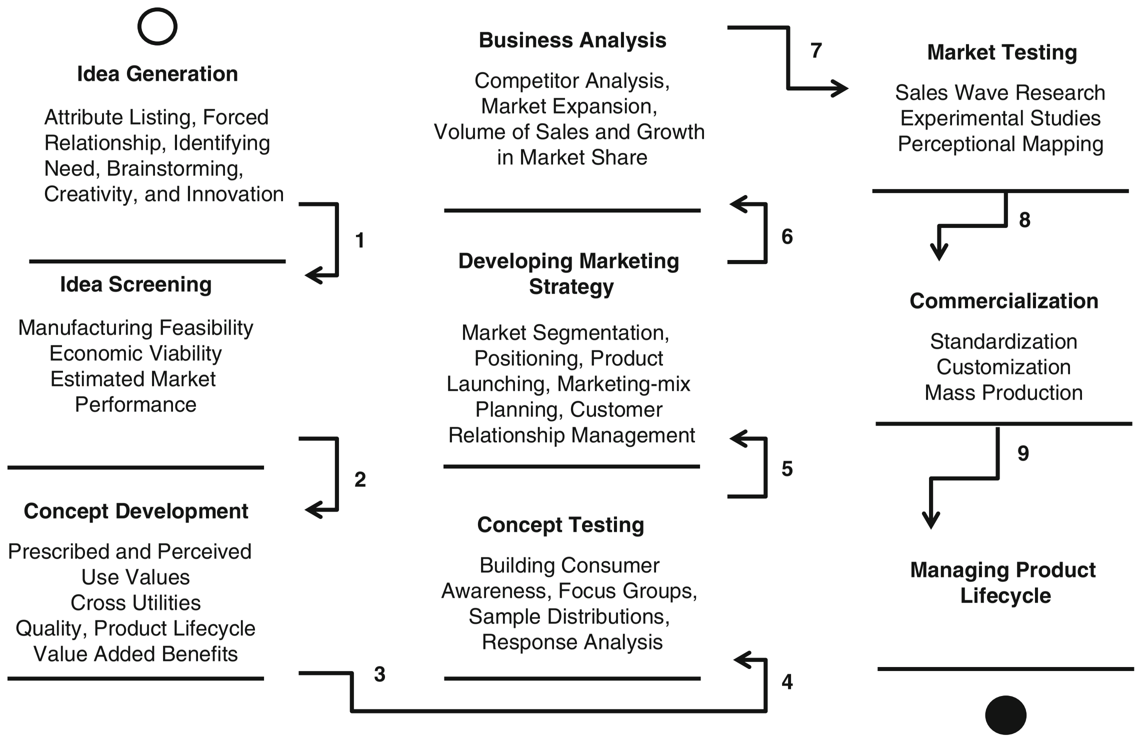

Figure 8.1 New product development process

adequate resources in the growth stage to diffuse the product innovation attributes through direct communication on a one-on-one basis to drive through the reports of early adopters. Consumers in this group are strong followers of lead users and are effective opinion leaders for influencing the early majority of consumers. Most companies deploy enormous resources in advertising, communication, and social media involvement during the late growth and maturity stage to drive customers who are less affluent, less educated, but ready to experiment with the innovative products.

The 'early majority' consumer segment constitutes a relatively larger segment than the previous consumer segments but is confined to niches. However, the following stage is of late majority, which is a very large segment and often represents about half of the total number of consumers in a given market area. This consumer segment exhibits high adaptability with innovative products and derives satisfactory value for money, which makes late majority consumers frequent buyers. Consumers in this segment are price-sensitive and there is the threat of defection when more attractive substitute products penetrate into the market.

Experience has shown marketers that there is always a small number of consumers in each market segment who are hard to persuade into buying any innovative product as they are indecisive and difficult to convince. This consumer segment is found in all stages of growth of innovative products but is especially large in number during the decline stage of the product lifecycle.

Brainstorming has a major role in the idea generation process. Contemporary methods for ranking the relative merits of ideas generated by brainstorming sessions rely on comparing average scores across members of the group. The average is a measure of the overall merit assigned to an idea, but it does not measure unanimity or the concentration of opinion across members of the group with respect to the idea under consideration. The standard deviation of responses is the accepted measure of group consensus, but this criterion is rarely used in brainstorming possibly, because the ranking of ideas is a more complex cognitive procedure when the two statistics, mean and standard deviation, are considered separately or possibly because most voting schemes are very simple (Walsh and Wood, 1992).

The ideation process encompasses the following perspectives:

- The 3Rs: record, recall, and reconstruct
- Return on ideas to match with returns on investment in reference to time and organizational resources

- Brainstorming
  - Define the problem as a question
  - Select an idea link word or phrase from a list of people, place or products
  - Record a list of ideas associated with the selected idea link
  - Choose the link connection and brainstorm ideas about its potential relationship to the problem defined as a question
  - Repeat the above step till the time runs out
- Brain-writing
  - Distribute blank paper to the participants
  - Write the problem as a question
  - Review the divergent thinking
  - Record three ideas and then exchange with other participants
  - Draw up a worksheet of ideas and list the best ideas
  - Repeat these steps for 4–5 rounds until the time runs out.

Companies often begin their search for new ideas either by encouraging brainstorming and outside-the-box thinking or by conducting quantitative analysis of existing market and financial data, and customer opinions. These approaches may produce acceptable ideas at best. The problem with the first method is that few people are very good at unstructured and abstract brainstorming, while the second approach may lead to fabricated databases, usually compiled to offer biased information, and customers can rarely reveal if they need or want a product they've never seen. The organizational process of regularly generating a wealth of good ideas should be driven through the following steps:

- Create new boxes for people to think within to prevent their thinking process from going astray and to have a basis for offering ideas
- Redesign ideation processes to remove obstacles that interfere with the flow of ideas, such as most people's aversion to speaking in groups larger than ten.

For example, how to improve an amusement park may need brainstorming. Responses to these questions may indicate something that adults loved as children, which was reproduced in the park in an expensive form for grown-ups. Further, asking brainstorming participants to ponder how their childhood passions could be recast as adult offerings might generate creative ideas for new products or services (Coyne et al., 2007).

The pivotal role of creativity in organizations has been widely recognized by the academic community. Creativity is associated with the part of the innovation process that is labeled as idea generation. The ideation process for new product development can be stimulated through metaphors, pictures, and experience. It is rooted in the philosophy of rationalism and empiricism, implying 'the truth is out there' approaches. It is observed that cognitive idea generation is based on personal experiences and beliefs driven by individual and social information. However, this form of cognitive-based idea generation process is individualistic and not amenable to team contexts (Bhatt, 2000). Managers engaged in documenting new product ideas from users should communicate to them on the following lines:

- Use consumer language
- Keep idea simple, focused, and organized
- Keep clarity – from the consumer's point of view
- Do not over-promise or oversell
- Focus on major consumer benefits
- Differentiate the brand from the competition
- Keep all concepts that will be tested in the same format
- Use experienced professionals to prepare the concepts
- Address the right target audience
- Understand the level of errors in information acquisition
- Include diagnostic questions.

The basic purpose of this exercise is to generate a large number of ideas. These ideas need to be carefully screened in the interest of consumer satisfaction as well as company bottomline. In this process the company should avoid *Drop* and *Go* errors, in which the former tends to dismiss a good idea and the latter tends to allow poor ideas to move into the process of commercialization. Hence the purpose of screening the idea needs to be understood. It is advised that the company should develop an idea-rating matrix on the basis of emerging ideas and their usefulness. Product ideas have to be turned into concepts, and product concepts can be turned later into brand concepts.

Concept testing calls for testing of these competing concepts with an appropriate group of target consumers. The concepts can be presented physically or symbolically. The consumers' response may be summarized and the strength of the concept may be judged. The need gap and product gap levels may be checked and modified thereafter.

This concept testing and product development methodology applies to any product or service. Business analysis includes estimating sales in terms of one-time purchasing, frequently purchasing or regular interval purchasing. Estimates should also be made in relation to customer tendency of first purchase, replacement purchase or repeat purchase. Besides, the company should also assess marketing costs and the targeted profits from commercialization of this product.

Testing new products in markets is a scientific process. Successful test marketing leads to proper uses and also poses serious limitations. It provides a measure of sales performance and the opportunity to identify and correct any weaknesses in the product or in the marketing plan. It is, however, expensive and arduous. Managers need to weigh the cost and risk of product failure against the profit and probability of success, the difference in scale of investment between a test and a national launch, the likelihood of being copied and pre-empted by the competition, and the costs in money and reputation of a product failure.

Product development at this stage involves designing prototypes on the lines of a derived concept that has passed through technical tests. Consumer testing of the product may be taken up in two forms – laboratory testing and home testing. The American home durable company DuPont developed new synthetic carpets and installed them in several homes free of cost in exchange for old carpets. Consumer preference testing may be done through a variety of techniques such as ranking, paired comparisons, rating scales, and focus group discussions. However, while analyzing consumer preferences the company has to take into account the advantages and limitations of each method. The number of responses in each category of preference of the products needs to be multiplied by the respective weights of the preferences, and the sum divided by the total number of responses to get a preference score. The cut-off score has to be decided by the company and viewed as its cutting edge, determined at a reasonable margin above the break-even point.

Customer involvement in developing new products has been widely used in American and Japanese manufacturing firms. Quality function deployment (QFD) is a popular tool for bringing the voice of the customer into the product development process from conceptual design through to manufacturing. The process of QFD begins with a matrix that links customer desires to product engineering requirements, along with competitive benchmarking information; further matrices can be used to ultimately link this to design of the manufacturing system. Unlike other methods originally developed in the USA and transferred to Japan, QFD methodology was born out of total quality control (TQC) activities in Japan during the 1960s and transferred to American companies. It has been observed that the companies in the USA have shown a higher degree of usage, management support, cross-functional involvement, use of QFD-driven data sources, and perceived benefits from using QFD. These complying American companies readily use newly collected customer data sources such as focus groups and methods for analyzing customer requirements. Japanese companies have tended to prefer existing product services data like the guarantee, warranty and a broader set of matrices.

Analytical techniques used in conjunction with QFD, including simulation, design of experiments, regression, mathematical target setting, and analytic hierarchy processes are also considered as supporting tools for analyzing customer data (Cristiano et al., 2000). Similarly recent studies have described how 'lean' Japanese car assemblers assigned the design and development of whole modules to a group of first-tier suppliers, who in turn utilized a team of second-tier suppliers for detailed development and engineering. Customer-involved product development strategies are also found across firms in different industries, including Apple, Benetton, Corning, McDonald's, Nike, Nintendo, Sun, and Toyota. The customer firm, often a large original equipment manufacturer, perceives that its power may be cascaded throughout its supply base. At the basic level, cascading is a way for a customer to delegate responsibility to its suppliers. In practice, it has been contended that cascading more often takes the form of a more imposing style of leadership (Lamming et al., 2000).

Along with the factors of quality function deployment, companies should also develop the product innovation charter considering the following critical variables in new product development process:

- Core competencies
  - Quality, function, delivery, infrastructure – the 4As (attributes, awareness, availability, and affordability) and 11Ps (product, price, place, promotion, packaging, pace, people, performance, psychodynamics, posture, and proliferation)
  - Technology, product experience, customer franchise, end-use experience
- Technology drives
  - Technological strengths, global competition, non-laboratory technology, small-order-handling technology
- Market drives
  - Dual-drive strategy, co-producer (customer focus), mass customization, distributors
- Dual-drive combinations

- Technical driver together with a market driver
- Technology of micro-filming and the market activity of education
- Global satellite technology and golf course superintendents
- Goals and objectives
  - Profit, growth, market status.

In the internet age, firms are recognizing the power of the internet as a platform for co-creating value with customers. The internet has impacted collaborative innovation as a key process in value co-creation. The distinctive capabilities of the internet as a platform for customer engagement, including interactivity, enhanced reach, persistence, speed, and flexibility, suggest that firms can use these capabilities to engage customers in collaborative product innovation through a variety of internet-based mechanisms. Network mechanisms can facilitate collaborative innovation at different stages of the new product development process (back end vs. front end stages) and for differing levels of customer involvement (high reach vs. high richness). Ducati, a manufacturer of motorbikes and Eli Lilly, a multinational pharmaceutical company, are found actively engaged in encouraging customer involvement in developing new products (Sawhney et al., 2005). In pursuing growth through product innovation, companies should look at their customers as partners in creating and building value. Consumers today have near-instant access to all the information they need on virtually any product. Moreover, they are using this information to influence product development as individuals and, more importantly, through user communities and review groups (Johnson, 2006). Most companies ask their customers about their needs. Customers offer solutions in the form of products or services, and then deliver these tangibles. Though customers are not experts or possess enough information to come up with solutions, the product research and development team of the company should work with customers to find appropriate ways forward. Customers should be asked only about the final product they want to use.

The stage-gate process of product development

Firms can benefit from opening up the new idea development process to make competitive and effective decisions by integrating the principles of continuous innovation with the *stage-gate* process. This process examines the potential opportunities of employing the principles of both inbound and outbound continuous innovation of a firm in both upstream and downstream marketplaces. The stage-gate model can exploit the advantages of openness, spot rationale, and sustainable effect of decisions that are required in the marketplace. This model allows explicit consideration of the import and export of know-how and technology through gate evaluations and also enable firms to continuously assess their core capabilities and business model. The application of this model can assist firms in capturing value from both internal and external technology exploitation in increasingly open innovation processes. The stage-gate process is shown in Figure 8.2.

A stage-gate model is a conceptual and operational roadmap for moving a new-product project from idea to launch. This model divides the effort into distinct stages separated by management decision gates. Cross-functional teams must successfully complete a prescribed set of related cross-functional tasks in each stage prior to obtaining management approval to proceed to the next stage of product development. Stage-gate processes have a great deal of appeal to management, because, basically, they restrict investment in the next stage until management is comfortable with the outcome of the current stage. The gate can be effective in controlling product quality and development expense. Stages-and-gates in the model function as sequential phases and may run into overlapping activities, especially when they cross decision points.

Stage-gate processes may not lead towards completing tasks in earlier phases to keep them off the critical path but they foster a mindset in which the work proceeds sequentially step by step. A newer alternative to the stage-gate process is the bounding box approach, which is essentially a management-by-exceptions technique, in which certain critical parameters of the project such as profit margin, project budget, product performance level, and launch date are negotiated as the bounding box. Firms need to conduct regular checks so that the process managers remain within bounds. The criteria used in the gate review involve aspects such as:

- Strategic fit
- Market attractiveness
- Competitive advantage
- Patent/legal issues
- Technical feasibility
- Regulatory aspect of health, safety, and environment
- Supply and market entry
- Financial attractiveness.

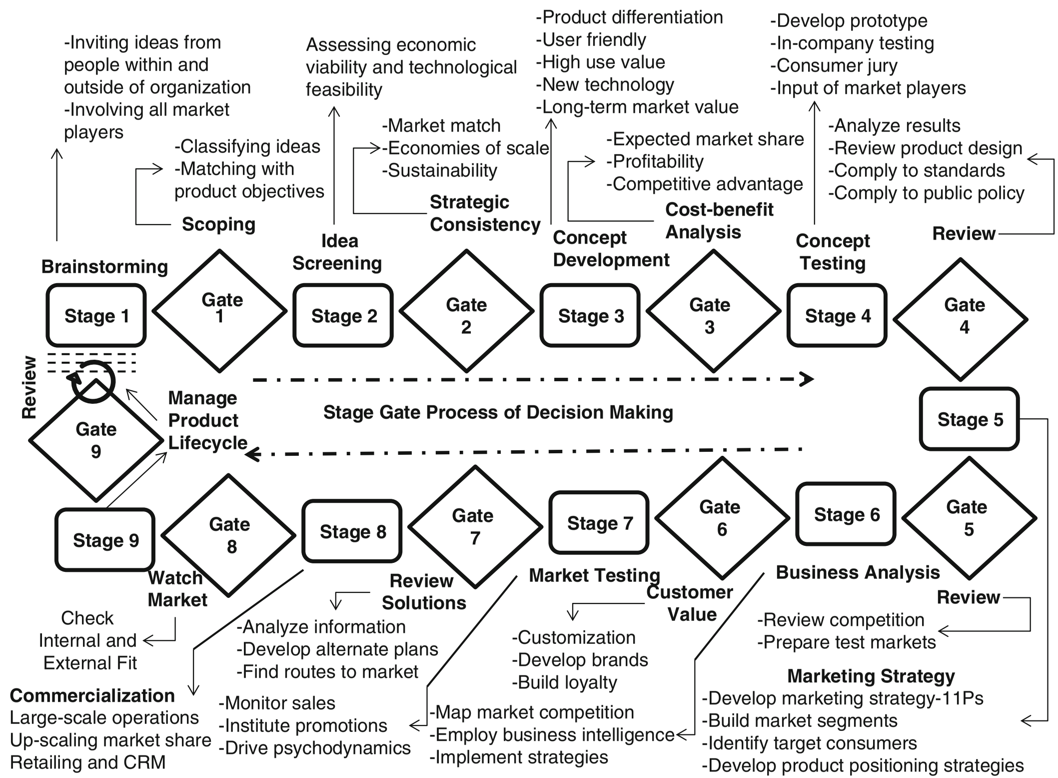

Figure 8.2 The stage-gate process of product development

The stage-gate process begins with the identification and documentation of a new idea for improving business. Tasks associated with the development of the product are then divided into a sequence of logical steps, called *stages*, each of which is preceded by a *gate* where the attractiveness of the project is assessed. During each stage, a cross-functional project team carries out tasks that result in the completion of the defined deliverables, including those related to technical (manufacturing, R&D, quality, regulatory) and business (sales, marketing, business development) functions. The advantages of using the stage-gate process may be listed as follow:

- Improved customer satisfaction
- Shorter time to market
- Improved new product success rates
- Improved new product launches
- Earlier detection of failures
- Increased innovation and productivity
- Less recycling and rework.

Competitive technology-oriented decisions are strategic business initiatives that involve significant resources and managerial skills. New technology-led products fail because market tests are not elaborative to forecast their commercial success accurately. Firms need to develop their systems thinking and employ the stage-gate process to capitalize on the power of the wisdom of market players by allowing managers to interact in organized markets governed by well-defined rules. Consumer-centric technologies motivate users to analyze information and explore customer values. Prediction markets seek aggregation of information from a large group of diverse individuals by encouraging active participation (Ho and Chen, 2007). The stage-gate process demonstrates the power of the decision manager to perform strategically in competitive markets.

While moving the new product development process through the stage-gate process, companies also need to develop their product strategies considering the following approaches:

- Product overlap strategy
- Product scope strategy
- Product design strategy
- Product diversification strategy.

Product overlap strategy may be described as competing against one's own brand through the introduction of competing products, use of private labeling, and selling to original-equipment manufacturers. Such product overlap strategy is developed and implemented by companies to attract more customers to the product, thereby increasing the overall market, and to work at full capacity and spread overheads. This strategy also supports selling to competitors in order to realize economics of scale and cost reduction. Each competing product must have its own marketing organization to compete in the market for making the product overlap strategy a success. It is also necessary in this strategy that private brands should not become profit drains and that each brand should find its special niche in the market. If that doesn't happen, confusion is created among customers and sales are affected. However, in the long run, one of the brands may be withdrawn, yielding its position to the other brand. The successful planning and implementation of product overlap strategy should result in increasing the market share and growth.

Product scope strategy deals with the perspectives of the product-mix of a company. The product scope strategy is determined by taking into account the overall mission of the business unit. The company may adopt a single-product strategy, a multiple-product strategy, or a system-of-products strategy. To increase economies of scale by developing specialization for the single product, a company may focus on its product scope strategy. This strategy may be applied to multiple products to cover the risk of potential obsolescence of a single product by adding additional products. The strategy may also be applied to increase the dependence of the customer on the company's products as well as to prevent competitors from moving into the market in reference to the system of products. The company must keep updated information on the product and even become the technology leader to avoid obsolescence in case of single products; rather products must complement one another in a portfolio of products for building the strategy for multiple products. The company should have a close understanding of consumer needs and uses of the products for effective implementation of the strategy. The implementation of this strategy should yield results of increased growth, market share, and profits. With system-of-products strategy, the company achieves monopolistic control over the market, which may lead to some problems with the government, and enlarges the concept of its product/market opportunities.

Product design strategy deals with the degree of standardization of a product. A company has a choice among the following strategic options, namely, standard product, customized product, and standard product with modifications. To develop a standard product the company should aim at increasing its economies of scale and focus its strategy for its customized product to compete against mass producers of standard products through product design flexibility. The company needs to undertake a close analysis of product/market perspectives and environmental changes, especially technological changes. The implementation of this strategy should benefit the company in increased growth, market share, and profits. On the other hand, a product elimination strategy aims at the company shaping the best possible mix of products by balancing the total business. This strategy would help in eliminating undesirable products because their contribution to cost and profit is too low or they do not fit into the overall business strategy.

Product diversification strategy is applied to developing new or extended products and markets through (a) concentric diversification (products introduced are related to existing ones in terms of marketing or technology); (b) horizontal diversification (new products are unrelated to existing ones but are sold to the same customers); and (c) conglomerate diversification (products are entirely new). The example may be cited of Nestlé milk products, such as milk powder, chocolates, yoghurts etc., which exhibit concentric diversification, whereas the unrelated products of the Gillette Company, such as men's toiletries, batteries (Duracell), and dental care products (Oral-B), are an example of horizontal diversification. The Tata Group of companies in India is involved in fully unrelated and new products, like steel, telecommunication, textiles, and consumer goods, and may be considered as an example of conglomerate diversification. Diversification strategies respond to the desire for growth when current products/markets have reached maturity and stability by spreading the risks of fluctuations in earnings. Diversification strategies are also required for business security when a company fears backwards integration from a major customer, and to add credibility and weight in capital markets.

9
International Pricing and Distribution Strategies

Pricing and distribution are complex functions in marketing, but they have become manageable for firms with the wide availability of new tools and techniques in the marketplace. The ability to set the right price at the right time is also becoming increasingly important for firms to sustain market competition. Strategic choices about market targets, products, and distribution set guidelines for both price and promotion strategies. Most firms use pricing as a demand detonator for a product, but few of them realize how it affects the consumption of a product. The firms that micro-manage the price of products and services to influence demand need to understand that the relationship between pricing and consumption lies at the core of customer marketing strategy.

This chapter presents a methodical approach to strategic pricing analytics, based on best practices towards maximizing profit. The discussion guides readers on how to identify and exploit pricing opportunities in various business contexts and develop appropriate strategies. In addition, the chapter discusses the lifecycle approach in pricing, common pricing strategies, pricing dynamics in competitive marketplace, direct and indirect distribution channels, and new dimensions of distribution management in international markets.

Prices indicate perceptions of customer value and also delineate objectives of firms. Hence, pricing has been one of the most highly emphasized strategic issues in business management. Historically, firms have taken price for granted, considering its main function to cover costs and support target sales with a predetermined rate of return. Contemporarily, firms lean on developing strategic pricing in order to gain competitive advantage in the market. The strategic perspective on pricing includes price objectives, price strategy, price structure, price levels, and price promotions. Globalization has driven various routes to market, and e-commerce as one of the convenient shopping options opens new opportunities for using differentiated pricing while optimizing pricing by creating customer-switching barriers, and differentiating by stage. However, challenges to management include the development of technology that facilitates customer price searching (Schindehutte and Morris, 2001).

Pricing structure is largely affected by the strategies of profit and cost centers used by firms to gain tactical advantage over competitors. One of the pertinent problems in the profit-center structure is that it makes it impossible for the firm to consider a product's revenues and costs separately. Another is the cost accounting system, which is not good for identifying the actual expense of generating additional offerings. Managers can push profit responsibility up, and push revenue and cost responsibilities down to separate groups, and step back from the cost accounting system in order to overcome these challenges. They may find pricing flexibility they didn't realize they had (Bryce et al., 2011).

There are many price equilibrium states that firms may achieve over time in market competition. Different price structures may be constructed based on various states of price equilibrium. A firm may engage in price competition if it has some sort of advantage enabling it to move first. More generally, the market leader must have commitment power. Moving observably first is the most obvious means of commitment, as once the leader has made its move it is committed to that action. Moving first may be possible if the leader has been the incumbent monopoly of the industry and the follower is a new entrant.

Pricing taxonomy

Low prices can be used as a weapon to build market share. Prices that undercut competitors attract new customers and allow for greater utilization of facilities. However, low prices squeeze margins and often reduce net profits. Thus an ideal pricing strategy should be one that balances the need for sales growth against market demand for profits. Selection of pricing objectives is determined by decisions relating to business positioning. Many organizations need profits to satisfy stakeholders and allocate resources for product development. Other objectives of pricing strategy for a growing company may be maximizing revenue, maximizing market share and achieving quality leadership.

Several factors influence managements decisions about how price will be used in marketing strategy. An important concern is to estimate how buyers will respond to alternative prices for a product or service. The cost of producing and distributing a product sets lower boundaries on the pricing decision. Costs affect an organization's ability to compete. Existing and potential competition in the market segments targeted by a company constrains its flexibility in selecting prices. Finally, legal, and ethical constraints also create pressures on decision makers.

Pricing plays a key role in marketing strategy. Strategic choices about market targets, products, and distribution set guidelines for both price and promotion strategies. Product quality and features, type of distribution channel, end-users served, and functions of intermediaries all help to establish a feasible price range. When an organization forms a new distribution network, selection of the channel and intermediaries may be driven by price strategy.

Pricing does not require significant investments or resources as it is the key operational factor in marketing strategy. Pricing is considered to be the most accessible lever to manage profitability of a firm. Even minor fluctuations in pricing can have a significant impact on both revenues and profitability. Since consumers vary in their preferences, motivations, and propensity to spend, they assign varying degrees of emphasis regarding price on their purchase decision, and firms can reduce profit drains by appropriately monitoring prices at various levels of the market (Kohli and Suri, 2011). Strategic pricing approaches are built around value-based, proactive, and profit-driven platforms in most firms striving to sustain market competition.

Value-based pricing relates to consumer perceptions towards buying certain products and analyzing the convergence of its utilitarian value with the money spent on purchasing the product. This consumer attribute may be defined as a 'value for money' constituent for firms to consider while developing their pricing strategy. The common assumption that high prices and high market share are not compatible is simply incorrect. In a variety of industries, from consumer durables to pharmaceuticals, cosmetics to cars, and aircraft to fashion apparel, it is quite common for the premium price brand to also be a market share leader. However, the 'value for money' attribute in pricing is commonly considered as a pricing objective in pushing products and services in a target market at an initial low price.

Such a pricing strategy is referred to as 'penetration pricing' to gain strategic advantage in the competitive marketplace. Penetration pricing by setting low prices can be adopted by firms if the objective is to build market share over a long period, whereas 'price skimming' by setting high prices in a target market can be followed if the objective is to increase profits in the short term (Hinterhuber, 2004). Most companies have overcome the conventional pricing strategies by considering preset profit goals for their products and ignoring product lifecycle perspectives, affordability of consumers, and value for money as perceived by them. Hence, in view of the increasing market competition as a global phenomenon, multinational companies are developing pricing strategies for their products and services in accordance with lifecycle requirements and the consumer needs arising in destination markets, as indicated in Figure 9.1.

Most companies follow a penetration pricing process in the introduction stage for their products by either lowering the price for mass markets or choosing high price bracket for their products in the premium consumer segments, as illustrated in Figure 9.1. However, in the growth stage companies try to set comparative prices for their products to restrict unexpected brand switching by consumers. This stage is sensitive for products' survival in the marketplace. However, companies refrain from tinkering with price at the maturity stage and attempt to build price loyalty among consumers in the marketplace. In the decline stage, companies accumulate a lot of slow-moving products and competing products overpower them. It is difficult for companies to lower their product price to the extent of cost price at this stage. Hence, piggyback pricing is followed by most companies by marginally increasing the price of their fast-moving products and laying off slow-moving products in tie-up promotions.

The lifecycles of products and customer value originate with product awareness and low customer value at the introductory stages, which drives firms to penetrate the mass market segments by offering low prices to acquire customers. At this level of the price lifecycle, prices are set below the level of the competition in order to drive sales and market share against competing products. Firms keep close track of the sales of substitute products at this introductory stage that might prevent its products growing through the price cycle. Despite the brand value of competing products in the market, there is always the scope for both low-cost and value-added players. However, the extent of the scope for low-end price products to generate growth depends not only on the competitive advantage experience by customers but also on the strategies of competing firms.

As the lifecycles of product, price, and consumer value move to the growth stage, the influence of substitute products on consumers' buying

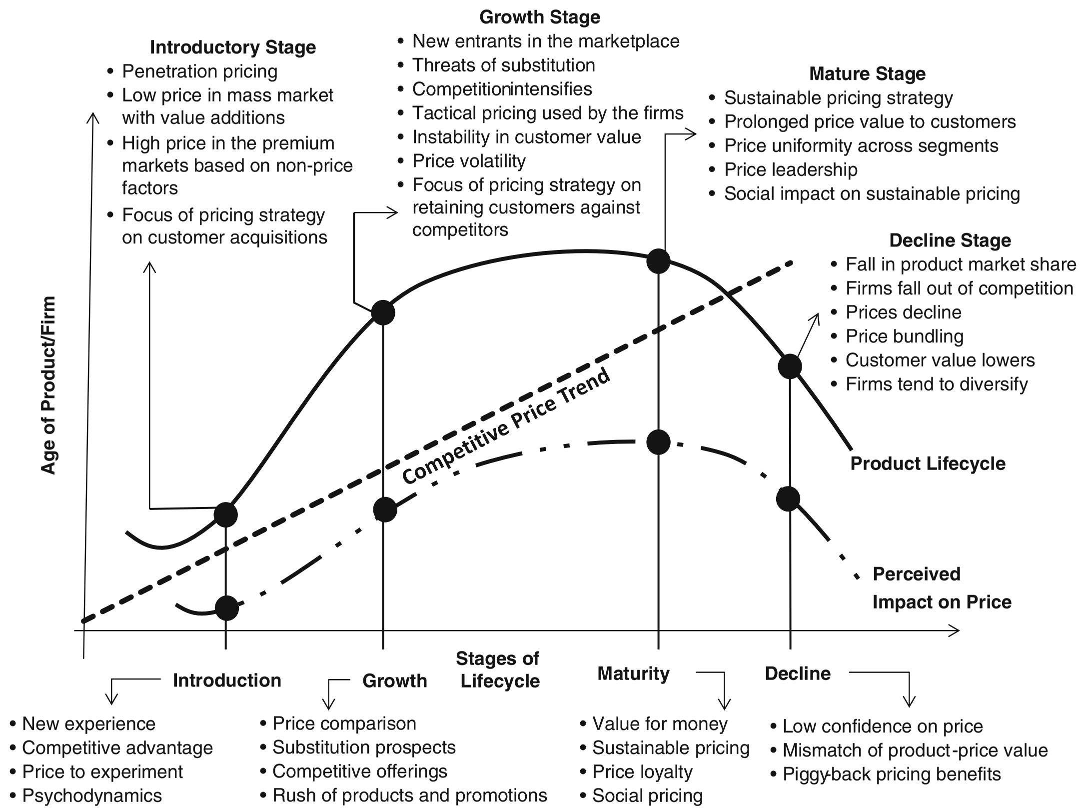

Figure 9.1 Product lifecycle-based pricing strategies

decisions increases because the differences in product attributes, quality, and price tend to narrow. Such a scenario appears in the market as competition intensifies among firms within the same product categories. Consequently firms adopt tactical approaches to gain short-run profits. It has been observed that firms leaning more towards tactical pricing approaches leads to price wars in the long run as lowering pricing to retain customers becomes a principal catalytic factor in consumer buying decisions. Such pricing structure of firms keeps volatility in the competitive marketplace, which consequently creates instability in customer values.

Pricing in markets is a controversial issue involving legal, economic, and political factors both in the practice of differentiated pricing and uniform pricing. Some international marketers argue for *uniform pricing* while others observe that the obvious differences in the markets of various countries favor the use of an internationally *differentiated pricing* policy. Conceptually, it is desirable on economic grounds to set different prices in different markets, because demand and supply differ from country to country. Such a strategy of differentiated pricing may fit to any form of imperfect competition such as pure monopoly, oligopoly, and monopolistic competition.

Thus, the multinational firms practice varying prices in different markets. However, such pricing strategy may be risk averse as the firm may be charged with dumping allegations in the host country for selling at lower prices than in other countries. On the other hand, a firm essentially in a monopolistic or oligopolistic situation may price its products uniformly on global scale. For example, Airbus Industries Inc. sells a range of aircraft and the company retains the same basic price for its planes everywhere (excluding taxes). At the introductory product stage the product is not highly diffused. Hence, a new product may be priced uniformly throughout the world. Further, if the diffusion process of an innovation has a similar pattern worldwide, standardized pricing would make sense for a foreign firm. However, the perspectives of local laws largely affect decisions on uniform versus differentiated pricing of multinational firms.

Most firms use pricing as a demand detonator for a product, but few of them realize how it affects the consumption of a product. Firms that tinker with the price of products and services to influence demand need to understand the relationship between pricing and consumption. The link between pricing and consumption establishes the rationale that it is more likely for consumers to purchase a product when they are aware of its cost. However, most firms disguise the costs of their goods and services to boost sales and believe that they should draw consumers' attention to the price that was paid for a product or service instead of analyzing the cost factors that constituted the price (Gourville and Soman, 2002).

Globalization has driven firms to take quick decisions on pricing to take competitive advantage in the marketplace. However, decisions on price taken on tactical grounds to move ahead of the closest competitor often reduce the profitability of the firms in the long run. Firms selling multiple products make strategic decisions about pricing and product-mix with distorted cost information and detect operational problems only after their competitiveness and profitability have deteriorated. An alternative approach to the pricing is activity-based costing, and in this process firms need not scrap their traditional cost systems to use activity-based methods. Both the systems can co-exist in determining the profitability-led pricing approach (Cooper and Kaplan, 2000).

The drivers of profit-led pricing strategy include multidimensional approaches as discussed below:

- Cost-plus pricing
- Customer-centric pricing
- Competition-driven pricing.

Pricing is a key determinant of profit to be nurtured around the marketing strategy of a firm. It does not require significant investments or resources, and is perhaps the most accessible lever to manage profitability. Even minor fluctuations in pricing can have a significant impact on both revenues and profitability. Lack of proper planning for pricing is faced by most firms as a backdrop in achieving set profit goals. Since consumers vary in their preferences, motivations, and propensity to spend, they assign varying degrees of emphasis regarding price upon their purchase decisions. Hence, it is argued that pricing is a creative exercise in behavioral economics, and companies should stay focused on profits by appropriate planning of pricing strategies in a competitive marketplace (Kohli and Suri, 2011).

Cost-plus pricing strategy is commonly adopted by most companies operating at a large scale either in international or regional markets. This approach to pricing is based on adding all activity-based costing and a standard mark-up indicating the level of profit of the company. In the past, most companies adopted the cost-plus approach to pricing by charging high prices when a product was first introduced in the market, then lowering prices when production was scaled up. Lean competitors made that approach impossible as they were quick in introducing *me too* products in a competitive marketplace. In order to gain competitive advantage in pricing and attain market leadership, a company must analyze the total costs including the risk and contingency elements at the outset to constitute its fair price. Target costing is a cost-management technique that determines how much customers are willing to pay for a product and then designs the product within cost limits that will permit it to sell profitably at the predetermined price (Cooper and Chew, 1996).

Pricing tactics encourage consumers to buy products and help companies in building long-term relationships with customers. The link between pricing and consumption envisages that consumers are more likely to buy a product when its cost is transparent and known to them. But companies prefer to hide the costs of their goods and services to boost sales at higher prices without considering the buying sensitivity of consumers in reference to costs and prices of the products (Gourville and Soman, 2002). It is argued that understanding and effectively communicating pricing to customers, particularly when it comes to innovative, new products, is difficult for most firms. According to a survey, 70 percent of companies continue to follow the traditional cost-plus model. It has been observed that traditionally firms rely on fixing the price by calculating cost and adding the desired returns on investment but this might not necessarily yield the optimal price (Kinni, 2003).

Most firms in the global marketplace co-create price with customers in order to gain customer confidence and improve profitability against competitors. *Customer-centric pricing* requires the real-time and continuous assessment of product attributes, customer perceptions, and the circumstances of transactions in a given time and place by listening to customers' actions. Firms assess the value they create for customers through this process and extract that value from the marketplace. Firms in a competitive marketplace spend enormous resources in creating value for customers; however, much less effort is put into holding the customer value that firms have created. Another factor that actively intervenes in determining the price for profitability is segmentation-based buying behavior that demonstrates a differential in willingness to pay for subjective product attributes such as convenience, status, and quality (Cross and Dixit, 2005).

Competition-driven pricing strategy focuses on determining a price that can achieve the most profitable market share and demonstrate a low, penetrating price for a longer period in the marketplace. However, the competition-driven price poses threats of future price wars in the market, provoking unethical pricing tendencies. As a defense against the price wars, firms may set their strategies on non-price factors and can compete on quality, technology, customer services, and corporate values instead of price. Firms can also alert customers to the risks and negative consequences of choosing a low-priced option (Rao et al., 2000).

Differentiation pricing strategies

Value pricing

Value- and skimming pricing may be an appropriate pricing strategy to follow with new products. This is also known as 'skimming the market.' In this process, a high price is set for the product to 'cream off' all available demand. The price is maintained for some time to allow the customers who regard the product as important to 'upgrade' them into a higher price bracket. In a broad sense, it is product segmentation. However, a value-pricing approach would prove advantageous only when enough product awareness is created among consumers through advertisements, demonstrations, and effective consumer services. In the long run such an approach would create a specific group of customers or consumer segment for the product. For instance, the electronic products of companies like BPL-Sanyo and Philips among capital goods, and household consumable goods such as packed food and condiments from capital-intensive units constitute such consumer segments for their products.

The advantage of a high profit under the value-pricing approach is anticipated in the long run when there is consumer segmentation for the product with a high degree of recognition. However in this approach, the selling cost may shoot up, reducing the profit margin in the initial stages. In value pricing, another important factor to be considered is territorial characteristics, including low purchasing power and high purchasing power consumer segments, and rural and urban segments. In the former, where the marginal propensity of consumption and income level of consumers are low, value pricing, with a high product price and selling cost, would not be a profitable approach. In such areas, where there are low-income group consumers, product segmentation can be done by formulating a 'dumping policy' at a low price. The price of the product can be raised to the maximum in coherence with the consumers' purchasing and paying capacity in the long run, after the product gets proper consumer recognition and makes headway in the market. Under such circumstances, the selling cost will, however, be lower as compared to overhead costs.

Dual standards

This strategy is largely backed by the concept of 'skimming in' and 'skimming off' price setting. A marketer can choose a relatively lower price for the product in segments where customer density is high but purchasing power is low. On the other hand, a higher price may be fixed in segments of high purchasing power where a 'skimming off' strategy can be implemented. In setting up both price standards, the marketing objective should remain intact and the overall orientation of the marketing managers should remain the same.

Conspicuous pricing

A skimming approach is implied in this pricing policy, where the price of the product is kept higher than its substitutes in order to make it conspicuous, so that the product may be recognized as a symbol of social status. The example of jeweler watches may be cited as a high-priced status product for customers.

Value-added pricing

In this price-determining process, the company takes care of the value of its by-products in the principal product and prices them accordingly. Such an approach is generally applicable for evolving price strategies of semi-processed products like meat, oilseeds, milk, chemicals etc.

International pricing fundamentals

The fundamentals of global pricing are derived through the conventional practices followed in home markets. The basic determinants for the international pricing of products and services are production costs, competitive factors, breakeven analysis, and demand considerations. Domestic price is affected by considerations of pricing objectives, cost, competition, customer, and state regulations. Internationally, these considerations apply at home and in the host country. In addition to the conventional considerations on pricing, multiple currencies, trade barriers, and longer distribution channels make international pricing decisions more difficult. *Pricing objectives* should be closely aligned to marketing objectives, which in turn need to be derived from overall corporate objectives. Essentially, the pricing objectives of a foreign firm intending to operate in the host country should be evolved in terms of profit or volume.

Cost-plus and activity-based pricing

Cost factors play a significant role in determining the international prices of products and services. The mark-up on cost or price or target returns on investment may constitute the profit objectives of pricing while anticipated volume of growth in sales may be considered as the volume objective of international pricing. The standard pricing procedure for exporting consists of a *cost-plus formula*. A firm may evolve export prices by adding up the various costs involved in producing and shipping the product (which refers to cost-based pricing) and then adding a mark-up (which refers to the concept of 'plus') to this amount to achieve a reasonable rate of return. The cost drivers of pricing include production costs, administrative costs, allocated research and development expenditures, selling costs, transport and warehousing charges, custom duties, and requisite fees for documentation etc. paid through various facilitating agencies.

In practice most firms seem to use a full-cost approach that includes direct costs and managerial costs in determining international prices. However, the emphasis varies with company strategy and the market situation. For an existing product entering a new market, direct costs tend to be a natural choice, since administrative or overhead costs are already covered at home and investments have been recouped. Fixed costs do not vary with the scale of operations, such as number of units manufactured. Salaries of managerial staff, office rent, and other office and factory overhead expenses are examples of fixed costs. On the other hand, variable costs include material and labor used in the manufacture of a product, and bear a direct relationship to the level of operations. Some fixed, short-run costs are not necessarily fixed in the long run; therefore, variable and fixed costs may be distinguished only in the short run. For example, the salaries of the marketing staff of a firm in the home country should be considered as fixed. Moreover, some costs that initially appear fixed may be viewed as variable when properly evaluated.

Cost-plus pricing examines the company's cost and expense structure to determine how much has to be added to the cost of a product to achieve a desired level of profitability. Most industries have rules of thumb that are often used to set prices. These rules of thumb are the cumulative results of the performance of many industry participants over time and should not be dismissed lightly.

Activity-based costing (ABC), also referred to as activity-based accounting and transaction-based costing, is a concept that is probably learnt in a managerial accounting course and discussed in a production and operations management course. Basically it is a method of allocating costs to products and services. If ABC is used effectively, it is a great tool for planning and control. Activity-based costing helps in determining the pricing strategy for a firm by:

- Identifying high overhead costs per unit and finding ways to reduce them

- Avoiding decreases in head counts due to inaccurate allocation of costs
- Measuring profitability with higher accuracy than traditional costing, which used only direct-labor hours as a cost driver
- Software packages can do simulations/calculations to establish the costs for different types of activities
- Used with a strategic intent, ABC could help determine whether a new product/service should be added and/or an old product replaced
- Used in production planning, ABC could help to decide whether production should be outsourced or kept in-house
- Measuring pricing and profitability.

A company should identify the major activities in a process/department/operation system. Later, it may create cost pools, if groups of activities need to be allocated together. Selecting cost drivers should follow. The number of cost drivers used relies on trade-offs: too few may reduce accuracy while too many may increase complexity. After determining the cost drivers, the rate should be calculated. The rates are then applied to the respective cost drivers for each product/service under consideration. The overhead cost per unit can then be derived by dividing total product cost of the product by total product units.

Market approach of pricing

Multinational companies mainly follow the *cost approach* and the *market approach* in pricing orientation. The cost approach involves first computing all relevant costs and then adding a desired mark-up to arrive at the sales price of products or services. The cost approach is commonly used by multinational firms as it is simple to understand and apply, and leads to fairly stable prices in the market. A conservative attitude would favor using full costs as the basis of pricing. An incremental-cost pricing could allow for seeking business otherwise lost. This method is an improvement over the pure cost-plus method since mark-up is derived more scientifically. Nonetheless, the determination of rate of return poses a problem.

On the other hand, the *market approach* of pricing proceeds in a reverse fashion. In this strategy of price determination, an estimation of the acceptable price in the target segment is made. Later, an analysis is performed to determine if this price would meet the company's profit objective. The final price is based on the price trend of competitors prevailing in the market rather than on own estimated production costs. The market approach is widely used in Japan, where a firm first examines the likely competitors and their products, and then estimates the unit cost necessary for viable entry into the market.

Experience effect on pricing

The impact of costs on pricing strategy can be studied by considering the ratio of fixed costs to variable costs, the economies of scale available to a firm, and the cost structure of a firm and its competitors. If the fixed costs of a company in comparison with variable costs constitute the higher proportion of its total costs, adding sales volume will be a great help in increasing earnings. A multinational company needs to consider the anticipated decline in costs while evolving the price for its goods and services, which may be described as the process of lowering prices in order to gain higher market share in the long run. The concept of obtaining lower costs through economies of scale has often been referred to in the literature as the *experience effect*, which explains that all costs go down as accumulated experience increases.

The nature of *competition* in each country also plays a key role in determining prices. Competition in an industry can be analyzed with reference to factors such as number of firms in the industry, product differentiation, and ease of entry. In addition, the competitive environment can be categorized as privileged position, leadership, chaotic competition, or stabilized competition. Competitive analysis should be done in order to reveal the global and domestic competitors in a particular market in reference to the price they charge for their products. These prices tend to set the *reservation* prices in the local market. Reservation prices are the price limits beyond which people do not consider the firm's product and avoid buying them. The analysis can go further and attempt to isolate the differential advantages in so-called 'perceived value pricing.'

It is essential that each company does a *breakeven analysis* of current or proposed business. A breakeven analysis examines the interaction among fixed costs, variable costs, prices, and unit volume to determine that combination of elements in which revenues and total costs are equal. Fixed costs are accounted for in land, plant and machinery, and other immovable assets. Variable costs include the expenses that change as a result of sales volume. In a manufacturing business, the material cost of sales is variable. Often utility expenses above some base rates increase sales, including gas or electricity charges in the factory or telephone expenses in the office. The labor component of production may be variable or fixed, depending on the obligations to employees. In some cases employees need only be paid for hours worked (variable expense), while in others, some minimum number of paid hours is required regardless of the number of hours actually worked (fixed expense). By reducing the operations to these factors for preliminary analysis, the company can avoid making serious mistakes and may discover significant opportunities. The challenge to the company is to design and implement the programs necessary to achieve the desired results.

Another key factor in determining price is *customer demand* for a product, and it should be analyzed in view of many influencing variables. The price of the product is one of the variables that influence the demand for it. The price considerations for a product or service include the ability of customers to buy, their willingness to buy, propensity to consume, the place of the product in the customer's lifestyle (whether a status symbol or a daily consumption product), prices of substitute products, the potential market for the product (whether there is an unfulfilled demand in the market or if the market is saturated), the nature of non-price competition, consumer behavior in general, and consumer behavior in segments in the market. All these factors are interdependent, and it may not be easy to estimate their relationships accurately. The process of demand analysis also includes forecasting the relationship between price level and demand, simultaneously considering the effects of other variables on demand. The relationship between price and demand may be described as *elasticity of demand*, or *sensitivity of price*, which refers to the number of units of a product demanded at different prices. The *industry demand* for a product may be considered as elastic if it can be substantially increased by lowering prices. If lowering of prices has little effect on demand, it is considered inelastic. Where the total demand of an industry is highly elastic, the industry leader may take the initiative to lower prices. Environmental factors, which vary from country to country, have a direct influence on demand elasticity.

Contemporary pricing strategies

Even in a mature and complex market resistant to across-the-board price increases, there are still many ways to deftly raise effective prices and increase market share. Pricing policy, if wielded wisely, can still be a powerful tool. The path to these pricing opportunities lies in three general actions management can take:

- Change the structure of the price
  - Bundle benefits
  - Unbundle benefits
  - Offer alternative service levels and price points
  - Link future purchases to current transactions

  - Change the price effectiveness period,
  - Substitute components of the price
  - Shift some of the price to suppliers
- Build more subtlety into the pricing process
  - Set prices selectively rather than across the board
  - Move prices in smaller increments
  - Raise invisible prices and match price moves to the market
  - Use discounts strategically to build relationships with desirable clients
- Exploit patterns common in other difficult markets
  - Price against the leader
  - Follow the leader
  - Seek out segments that will tolerate higher prices.

With the hidden power of pricing, a company facing a highly price-competitive market can use knowledge and subtlety to improve its returns and share (Potter, 2004). As competition is growing in global markets consumers are finding more buying alternatives with competitive differentiation in product attributes, price, use value, and shopping options. Hence, purchase decisions are made through an assessment of various factors balancing perceptions of value components against price in a sensitive, complex, and often subconscious decision-making matrix. In order to make the right competitive differentiation, companies are formulating pricing strategies very close to consumer preferences and psychodynamics. Customer-centric pricing requires the simultaneous and continuous assessment of product attributes, customer perceptions, and the circumstances of time and place by listening to customers' actions. Companies assess the value they create for customers and extract that value from the marketplace by setting customer-centric prices (Cross and Dixit, 2005). Figure 9.2 shows the attributes of active and passive customer-centric pricing strategies.

Companies targeting their products on both mass market and premium segments lean towards developing a high passive strategy by setting high prices for their products but lowering their investment on advertising and communication, as shown in Figure 9.2. A high active strategy that keeps high prices in premium market segments is followed by multinational companies. In this strategy companies make high investment in brand development, which has implications on fixing a high price for products and positioning them in the premium segment. Companies attempt to keep the high price sustainable over a longer period in this market segment. A low active strategy of pricing is

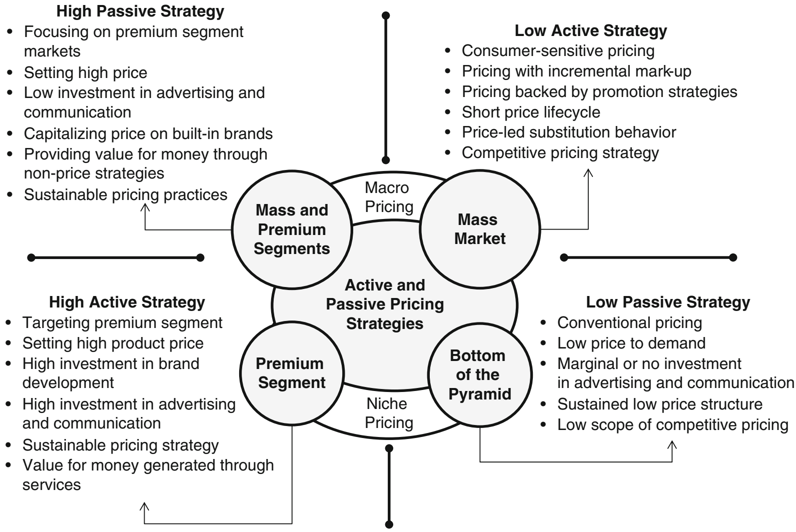

Figure 9.2 Active and passive customer-centric pricing strategies

commonly applied by multinational companies in marketing products in the mass market segment. While implementing this strategy most companies fix customer-sensitive prices for the products and exhibit competitive advantages over existing products. Consumers tend to look for substitute products in the mass market considering value for money over price paid for a product. Small companies follow a low passive strategy in niche markets by fixing the prices of their products conventionally at a lower rate and do not invest in advertising and communication to support their low prices.

Premium pricing

Firms with flagship brands apply a high price for them in a consumer segment that can afford such a price. This approach is used where a substantial competitive advantage exists and the marketer is sure that a firms can charge a relatively higher price against competing brands. Such high prices are charged for luxuries, such as Royal Caribbean Cruises, Savoy Hotel rooms, and first-class air travel. A premium pricing strategy involves setting the price of a product higher than similar products. This strategy is sometimes also called skim pricing because it is an attempt to *skim off* consumers at the higher end of the market, and is used to maximize profit in areas where customers are happy to pay more, where there are no substitutes for the product, where there are barriers to entering the market, or when the seller cannot save on costs by producing at a high volume.

Premium pricing can also be used to improve brand identity in a particular market. This is called 'price-quality signaling' as it disseminates high price signals to consumers, indicating that the product is of high quality and the price for the product is worth its value for money. Some firms use this strategy to give their product a premium image. For example, the iPad from Apple Computers has a higher market share than its competitors – like tablet PCs – because the company has used premium pricing to capture the market for high-end, high-quality computers.

Many firms serving business markets believe that practicing value-based pricing justifies the value of product offerings and offers a relative advantage to their customers. Accordingly firms determine as high a price as they can for consumers in the premium segment. However, charging high prices in a premium segment is not always an advantageous strategy for a firm. There are several questions that an organization should ask to improve its pricing strategy, including:

- What is the right marketing strategy for this segment?
- What is the differential value on price that is transparent to target customers?
- What is the price of the next best alternative offering?
- What is the customer's expectation of a 'fair' price?

Firms may explore these issues and accordingly can choose a price point that provides the largest long-term value to consumers in a given segment. The benefits of setting a premium price and positioning it in the premium consumer segment must be considered in reference to improving the quality of customer relations management that often leads to long-term profitable relationships. Using this pricing strategy, customers might also be more willing to collaborate with firms and show loyalty to their brands, which can lead to improving the market share of the firm. Firms practicing this kind of value-based pricing boost profits not only in the present, but also set themselves up to profit over the long term (Anderson et al., 2010).

Firms need to integrate price consciousness as a critical variable into their promotional effectiveness framework. They should analyze whether price consciousness affects consumer perception on price discounts and premiums at different benefit levels such as moderate versus high level. It has been observed that price discounts and premiums are equally effective for high price-conscious consumers. However, price discounts are more effective than premiums for low price-conscious consumers. At high benefit level price discounts are more effective than premiums, but this effect is more apparent for high price-conscious consumers.

Firms should know how price conscious their consumer segment is, before taking any decisions regarding a promotion-linked pricing strategy. To be more effective, it is recommended that they offer premiums instead of moderate price discounts if the target segment is high price-conscious and the target consumer segment is not low price-conscious, because for this consumer segment a moderate discount is preferred (Palazón and Delgado, 2009). In another study it was found that consumers buying at large-scale retailers or departmental stores might be willing to pay a higher price premium for quality products than those buying in common retail outlets. In a real market situation consumers would be willing to pay a higher price premium for quality products when comprehensive brand information is associated. In a large-scale retail environment consumers are assisted by knowledgeable salespeople and promotional literature (Boatto et al., 2011). Hence, it is suggested that the best approach is to launch products as premium offerings from the beginning as it is easier to mark products down than to mark them up, once they have reached a specific price point.

Penetration pricing

Price is the principal element in the marketing-mix that contributes to the revenues of a firm while all others elements represent costs. Choosing the right price for a product helps a firm to send the correct price/quality signal to consumers. Price-signaling occurs when the cost of any product or service reflects the product's perceived quality and consumer's willingness to pay. The price charged for products and services may be set artificially low in order to gain market share; and once this is achieved, the price is increased. This approach is used by France Telecom and Sky TV. These companies need to acquire large numbers of consumers to make it worth their while, so they offer free telephones or satellite dishes at discounted rates in order to sign people up for their services. Once there is a large number of subscribers prices gradually creep up. Taking Sky TV or any cable or satellite company as an example, when there is a premium movie or sporting event prices are at their highest so these companies readily move from a penetration approach to more of a skimming/premium pricing approach.

The implication of increasing market competition in a given time and place shows that a downward demands slope is evident in a typical new product pricing decision. Hence most firms face the ambiguity in decision making – whether a product should be launched with an aggressively low price from the start (penetration strategy), or introduced at a high initial price with subsequent price reductions as the market matures (a skimming strategy). From a strategic perspective, a market share-focused penetration strategy is most appropriate when it is important to exploit first mover advantage for a firm. Firms need to consider the following marketing requirements to optimize the advantages of penetration pricing:

- Implement cost improvements from scale, scope, or experience (learning curve)
- Ensure substantial sale of complementary product (e.g. razors and blades, toner cartridges for printers and copiers), to justify the price/quality relationship
- Contribute in subsequent upgrade cycles in product and its use value, such as technology, product attributes, extended applications, and consumer perception of price in reference to its use value
- Encourage social networks on interactive discussions on pricing and value for money so that more customers get motivated to buy the product (e.g. mobile phones with improve technology and user applications). Thus, social media effects can provide increasing benefits on price.

Further, if the product were being launched into a perfectly competitive market, there would be no pricing decision to make *per se* as the prevailing market price would be the price. But a substantially new product begins its market from a niche located either at the upper or lower end of a consumer segment. That is, for at least some segments of the market at which the product is targeted, the new product is initially unique with no substitutes. So the innovating company has some pricing leeway. The more the product is differentiated (i.e. unique) and strategically targeted, the greater the monopoly effect and the broader the pricing flexibility. New product innovation is a strategic business activity that involves significant efforts in making an appropriate pricing decision and commanding managerial attention.

Most new product launches fail because existing pricing methods are unable to forecast their commercial success accurately. In increasing market competition most firms capitalize their pricing strategy on the power of the 'wisdom of crowds' by allowing consumers to interact with the pricing offers of different buying outlets and evaluating their competitive advantages. Prices determined in such a way motivate people to share information freely through a price discovery process (Ho and Chen, 2007).

Economy pricing

This is a volume-linked low-pricing strategy. The costs of marketing and promoting a product are kept to a minimum. Supermarkets often have economy brands for soups, spaghetti, etc. Budget airlines are famous for keeping their overheads as low as possible and then giving the consumer a relatively lower price in order to fill an aircraft. The first few seats are sold at a very cheap price (almost a promotional price) and the middle majority is economy seats, with the highest price being paid for the last few seats on a flight (which would be a premium pricing strategy). During times of recession economy pricing yields more sales. An example of volume-oriented pricing is volume packs of consumer goods that offer a high volume of products at the same price. Consumers who have lower purchasing power but higher demand for consumer goods commonly prefer to buy products and services at the economy price. The strategy of economy pricing is followed by most multinational companies that are aiming at the bottom-of-the-pyramid market segment. These firms consider that a high volume/low price strategy is a good fit for the mass market segment to attract the cream of the country's fast-growing cohort of mid-level consumers. But as middle-class buying power increases, and the tolerance for high markups diminishes, the middle market has shown a tendency to grow faster.

Price skimming

A skim strategy is an approach radically different from penetration pricing. When skimming, a company initially sets a relatively high price (well above costs) that will be acceptable to only a portion of potential customers, namely those who value the product highly and have the means to buy it. After the high-end market is saturated, the price is lowered to attract potential customers who value the product low.

A company charges a higher price as a skimming strategy because it has a substantial socio-economic advantage in specific consumer segments. However, the advantage tends not to be sustainable. The high price attracts new competitors into the market, and the price inevitably falls due to increased supply. Manufacturers of digital watches used a skimming approach in the 1970s. Once other manufacturers were tempted into the market and the watches were produced at a lower unit cost, other marketing strategies and pricing approaches were implemented. New products were developed, and the market for watches gained a reputation for innovation.

Psychological pricing

This approach is used when the marketer wants the consumer to respond on an emotional, rather than rational basis. For example, in price point perspective (PPP) the price of a product at 0.99 cents is perceived as cheaper as it is not 1 US dollar. It is strange how consumers use price as an indicator of all sorts of factors, especially when they are in unfamiliar markets. Consumers might practice a decision avoidance approach while buying products in an unfamiliar setting, for example ice cream. Another approach is to price to customer expectations. Experienced purchasers of products and services have general ranges and frames of reference for pricing expectations. Prices that are inconsistent with these expectations may be rejected without consideration. A low price may be associated with an inferior product or service, thereby being unacceptable to particular customers. A high price may be beyond what another buyer considers reasonable for his/her expectations of the product's benefits. Ultimately prices should be set according to what the market can bear. This is influenced by competitive actions, customer expectations, and the company's cost structure. No final pricing decisions should be made until a breakeven analysis has been performed considering fixed costs, variable costs, and volume.

Price discounts

This is one of the most popular strategies adopted by companies in order to attract the consumer towards their stocks and increase sales by offering a discount on the price of the products either on selected or all items in accordance with the business state of the organization. The discounts are offered in terms of cash, kind or discount vouchers, facilitating the way customers buy the products of the company for the amount discounted. The discounts offered by government-supported organizations often include one or more of the following:

- Cash discounts
- Quantity discounts
- Discount in kind
- Trade discounts
- Seasonal discounts
- Institutional discounts

- Grant-in-aid discounts
- Allowances
- Stock-clearing discounts.

A company may offer a discount either by making the customers pay less than the prescribed price of the product or by setting a strategy to provide additional quantity of products on the pre-set price. Such transactions refer to cash and quantity discounts respectively. For example, discount in kind may be given on high-technology products along with the principal product, such as a memory storage device with a computer. Trade discounts are incentives to distributors for the promotion of sales. Seasonal discounts on prices are related to customers' demand for the product at a particular time. For example, during festivals, clothes are in high demand and are generally offered at seasonal discounts to boost sales. The Handloom Societies patronized by the Government of India, for example, offer seasonal discount subject to the availability of grant-in-aid for sales from the government. On bulk procurement of products, an institutional discount on the set price is offered by companies to keep up the customer relationship. The company, however, may decide to offer a clearance sale discount on prices to ease inventory blockages and tied expenditure. It also helps an organization replenish the product line with products on demand at par with fashion or time. The sales personnel of the company also get some benefit as a token or recognition for service rendered in terms of price discount on selected products to keep their morale high in the future.

Firms often lean towards cutting prices in view of weakening sales as a price-cutting strategy is quick and easy to implement, and customers often respond immediately to lowered prices. However, periodical price cuts can be addictive to customers, and sales of products and services may be highly seasonal. As price discounts set the buying attitude of customers, they may quickly develop a craving for big discounts and an aversion to full prices.

Thus, firms need to develop the right pricing approach and tactical moves in a way that help in stabilizing the business in a downturn and build profits in the future. For example, Wal-Mart demonstrates a corporate philosophy of everyday low prices instead of offering price discounts (Rigby, 2009). However, a temporary discount can generate much customer excitement, but the revenue effects may not sustain for the long term. Price discounts as a promotional strategy commonly increase the revenue of a firm and depress retailer revenue in the short term but have no persistent effect. Price discounts are tactical but they are not strategic pricing policies to yield sustainably for the long term.

Promotional pricing is very popular with retailers, and can be a highly successful strategy for acquiring new customers. Promotional pricing is introduced during new product launches, to gain competitive advantage in the short run in a given market, and for protecting the market share of a firm. Companies that have been market leaders in the past can become loss-leaders upon losing their market share for various reasons, and switch to price discounting strategy to sustain in business. Accordingly, firms offer the current purchase discount that allows customers to gain economic value on the purchase price.

This is a commonly used technique that is easy to implement because prospective customers understand and respond to it. Some of the benefits of this strategy include immediate and measurable results. It is also easily modifiable to match the needs of the marketing segment and can be adjusted to meet customer demands. Contrary to this strategy, many firms prefer to offer price discounts on future purchases. The future purchase discount is a promotional-pricing technique similar to the current purchase discount, but offers the discount at the customer's next purchase. The benefits of this type of strategy also include easy-to-measure results and familiarity to customers. Other advantages encompass long-term customer loyalty and repeat buying.

International distribution strategy

There are two forms of international distribution – direct and indirect – practiced by multinational firms. The direct distribution channel may appear to be more effective, but in practice it is better only if the customers are geographically homogenous, have similar buying habits, and are limited in number. The indirect channel is preferred by companies in regions where customer segments and their buying habits are heterogeneous (Bruce and Ford, 1989). A foreign company may go through either one or multiple agents or merchant intermediaries in a host country. The major difference between these intermediaries may be described in terms of the legal ownership of goods. An agent, without taking title to the goods, distributes them on behalf of the principal, the manufacturer. Merchant intermediaries do business in their own names and hold title to the goods they deal in. The different types of indirect distributors who operate in the overseas market include:

- Export management company
- Manufacturer's export agent
- Foreign freight forwarders

- Commission agents
- Country-controlled buying agents.

Other categories of intermediaries are export merchants, cooperative exporters, and export vendors, who are all merchant middleman involved in the operation of distribution of goods and services. This type of intermediary does not take title, but do take possession of goods. However, they have different duties in respect to continuation of relationship with the principal (long-term versus temporary); degree of control maintained by the principal (complete versus slight versus none); pricing authority accorded to the agent (full versus partial versus advisory), affiliation with buyer or seller; number of principals served at a time (few versus many); involvement or non-involvement with shipping or handling of competitive lines; provision of promotional support (continuous versus one-time versus none); extension of credit to the principal (regularly versus occasionally versus rarely or never); and provision of market information (good versus fair versus poor).

Indirect distribution channels

An *export management company* (EMC) may be defined as an independent export organization that serves different companies in their export endeavors. The relationship of EMC with exporter is that of a client and not of an employer. The EMC operates under the client's name for all international communications. However, the scale of the operations of EMCs would vary in different countries. An EMC may appear just as a single person or as an organization and manage all export activities of the client overseas. Large EMCs often maintain international offices in strategic locations. EMCs generate their income either from commissions or from discounts on goods they buy for resale overseas as these organizations also undertake exporting more effectively and generally at a lower cost than other channels.

The *manufacturer's export agent* (MEA) is another type of indirect distributor, who provides services similar to those of EMC, but the MEA covers limited markets and the contractual relationship is short-term. An exporter may offer a MEA a contract for performing a particular transaction, and the MEA would act using their own name while following the procedural requirements and receive a commission for its services.

A *Webb-Pomerene Association* (WPA) may be described as one of the organizations undertaking international distribution services indirectly in the USA. This association is formed among competing US manufacturers especially and exclusively for the purpose of exports, according to an Act of 1918. The members of the WPA can engage in different international marketing activities to their mutual advantage. These members can determine prices, combine shipments, jointly undertake marketing research, or share information with each other, and allocate orders among different members of the association within the operational area as stipulated by the US law.

The *foreign freight forwarder* specializes in handling overseas shipping arrangements and their services can be utilized for handling goods from the port of exporters' location to the foreign port of entry. A foreign freight forwarder receives a discount or fees from the shipping company. However, freight forwarders undertake extra services such as packing at an additional cost.

Commission agents also anchor as a distribution channel in overseas markets. Foreign customers interested in buying overseas products are represented by commission agents. They serve as so-called 'finders of desired goods' at the lowest price for their principals. The commission agents receive their commission from their overseas clients.

The *country-controlled buying agent* may be defined as a procurement operator of a foreign government, seeking to buy designated goods for his country. Many developing countries have entrusted these agents with the task of procuring different goods for them.

There is another channel for distribution of products and services overseas described as *export merchants*. They buy directly from manufacturers according to their specifications, taking title to the goods. These merchants generally have contacts with the overseas agents through whom the goods are sold either to the wholesalers or retailers. The export merchants assume all possible risks associated with the products they purchase from the manufacturers and sell them in their own names. Their compensation consists of a mark-up percentage based on market conditions. In general, export merchants may be considered as similar to domestic wholesalers.

On the other hand, *export vendors* are organizations that specialize in buying inferior quality and overproduced goods in a country for distribution in overseas markets. These companies procure the sub-standard goods outright, taking title to them, and ship the goods to one or more countries for selling therein through their established contacts.

Many companies develop alliances with other companies to establish a distribution network or form a joint venture with other companies in order to manage distribution of their products and services in international markets. For example, the Colgate-Palmolive company distributed Wilkinson Sword men's toiletries in selected overseas markets, Whirlpool used Sony in Japan, and Breck Shampoo used Schick in Germany as the distributor for their product. This system of distribution is called the *cooperative exporter*.

A cooperative exporter may be any company that has an established system of handling exports for its own goods and distributes products overseas for other manufacturers on a contract basis. These cooperative arrangements are also termed as *piggybacking*. The piggybacking consists of two players – the carrier and the rider. The firm actually engaged in exporting is usually the larger firm, with established export facilities and foreign distribution, and may be described as the carrier. The rider is the company using the exporting company to carry its products to the foreign countries by piggybacking.

This distribution channel also intends to offer extra customer convenience by providing related products. For example, Singer sells fabrics, patterns, and sewing accessories in addition to sewing machines. Finally, firms with seasonal sales may piggyback to keep their export operation working at full capacity throughout the year. However, piggybacking is a sale of know-how and services rather than a sale of products from the point of view of the carrier firm. The Schick Company for its safety razors tried piggybacking after encountering difficulty in distribution to the German market, and established a temporary alliance with another consumer goods company. Later the company set up its own sales subsidiary in Germany to distribute the wide range of its products. However, in some international markets where distribution is complex or customer requirements are highly personalized, the company might choose to engage in a distribution alliance with a competitor. The Ricoh Company of Japan, which is an original-equipment manufacturer of photocopier machines, allowed its competitor, the Savin Company, to sell their copiers in the USA in order to gain quick market penetration.

Direct distribution channels

A manufacturing company overseas performs in the international marketing largely by proxy, wherein the products are distributed through another firm that carries its products overseas. Overseas manufacturing companies gain international marketing know-how and achieve their sales targets through indirect approaches. A firm can also commit to its performance in the host country by direct exporting. Here the manufacturer undertakes the export task itself rather than delegating it to others. The manufacturer accordingly takes up the tasks of market contact, market research, physical distribution, export documentation, pricing, promotion, and other strategic functions.

It has been observed that direct exporting activity generally generates more sales than indirect exporting. The advantages of direct distribution are reflected not only in augmenting sales but also in exercising increased control, better market information, and development of expertise in international marketing. Direct exporting may have higher costs as they are borne by the manufacturing or exporting firm, whereas they are shared in the process of indirect exports. A firm may choose direct distribution for its products through agents, which include sales representatives, purchasing agents, and export brokers.

A *sales representative* may be described as a person in charge of distributing the products and services of a manufacturing company. A manufacturer supplies the sales representatives with literature and samples to conduct sales in a pre-designated territory. These representatives usually work on a commission basis, undertake no risk or responsibility, and operate in reference to a stipulated contract for a fixed tenure. They may also choose to operate on either an exclusive or non-exclusive basis, and serve as a good source of market information.

The *purchasing agent* is also referred to as a buyer for export or an export commission house. Such agents operate in many developed countries including in North America, seeking goods of interest to their foreign principals. Their product quality and price demand is determined according to the requirements of their principal business houses.

Export brokers are another form of direct agents who play a significant role when firms choose to get their products distributed in overseas markets. An export broker brings the home country seller and foreign buyer together on a negotiating platform. The export brokers receive a commission from the seller for their services. In the transaction process the brokers take neither title nor possession of goods and assume no financial responsibility relative to the export transaction. Export brokers, who are popularly engaged in international transaction of agricultural products like grains, cotton etc., are rarely involved in the export of manufactured goods.

Another type of distribution process through direct export agent firms involves *foreign merchant intermediaries*, who generally take title to the goods and arrange to sell them under their own name. Foreign merchant intermediaries offer services similar to those of a domestic wholesaler. The important types of foreign merchant intermediaries include export distributors, foreign retailers, export jobbers, and trading companies.

Of these, an *export distributor* procures products from a manufacturer in the home country at the greatest possible discount and resells them for a predetermined profit by him. Such intermediaries are active in distributing products that require periodic servicing as they are committed to provide adequate service to customers through carrying a sufficient quantity of spares and parts, maintaining facilities, and providing technicians to perform all normal servicing operations. Export distributors procure the products in their own names and usually maintain an ongoing relationship with the exporter in the home country. They acquire exclusive sales rights in a host country or a region and receive easy terms of payback from exporters.

However, sometimes the manufacturers of a home country prefer to deal directly with *foreign retailers*, particularly in the case of consumer goods like cookies and other confectionery products. In some countries, reputed and large retailers dealing in general merchandise or a specific range of products like textiles, photographic goods, electronics etc. perform dual roles in terms of selling the products directly to consumers through their own outlets and also distributing imported goods to smaller retailers. Thus, it is observed that exports handled by the retailer generally receive wide coverage.

A different category, the *export jobbers*, determine customer needs overseas and provide them by making purchases in the home country. Some jobbers reverse the process, catering to the needs of home country customers by supplying imported products. The jobbers mainly deal in staple groceries and freely traded products under open general license for which brand names have little importance.

International channel management

A foreign firm needs to carefully examine the pattern of distribution that fits competitively to the market environment of the host country. *Intensive distribution* is an attempt to reach the mass market, and it requires a broad-based channel structure, whereas *selective distribution* refers to distributing through a few so-called 'elite outlets' located in premium market segments. *Exclusive distribution* refers to letting a designated channel undertake distribution on a monopoly basis such as the task of distributing a company's exclusive products. Host country trade practices concerning the distribution of a particular product are other influential variables to be examined by the foreign firm during the process of developing its channel management strategies.

Different degrees of distribution intensity can be implemented. Selective distribution falls between the two extremes. Rolex watches and Coach Leather goods are distributed on a selective basis. For example, an expensive product, such as a Toyota Lexus luxury automobile, does not require intensive distribution to make contact with potential buyers. Moreover, several dealers in a trading area could not generate enough sales and profits due to the luxury car's limited sales potential. Similarly, Escada's management, in choosing to serve the middle to upper price-quality segment of the apparel market, essentially preempted consideration of an intensive distribution strategy. In contrast, Kodak film needs to be widely available in the marketplace.

The distribution intensity should correspond to the marketing strategy selected by management. Strategic requirements, management's preferences, and other constraints help to determine the distribution intensity that offers the best strategic fit and performance potential. The requirements of intermediaries are considered, along with management's desire to coordinate and motivate them.

Choosing the right distribution intensity depends on management's targeting and positioning strategies, and product and market characteristics. The major issues in deciding distribution intensity are:

- Identifying which distribution intensities are feasible, taking into account the size and characteristics of the market target, the product, and the requirements likely to be imposed by prospective intermediaries
- Selecting the alternatives that are compatible with the proposed market target and marketing program positioning strategy
- Choosing the alternative that offers the best strategic fit, meets management's financial performance expectations, and is sufficiently attractive so that intermediaries are motivated to perform their assigned functions.

The objective of distribution planning is to make the product available to consumers at the most convenient outlet. Distribution planning for products should be considered as of prime importance in withstanding market competition, because, if a competitive product is available at more approachable outlets or at lower price, the sale may be lost. Therefore to deal in such a competitive market situation, systematic planning for delivering the product to consumers through different distribution channels is required. The time and distance factor for the delivery of goods normally influences the buying decisions whereas the manufacturing of products is subject to consumer order, occasional demands and door-to-door delivery promises. In this regard planning needs to be done by evolving different methods for efficient product distribution through identified channels. In this process, there is a need to look into the infrastructure factors, namely transport, road, and communication, in support of the channel efficiency. In fact the consumer is only interested in getting the product but much responsibility lies with the marketing personnel in delivering the product at an appropriate time and place.

Distribution planning may invariably be based on the market survey carried out at the time of preparing the business plan. Distribution planning should be done to make the products available to the largest number of consumers at the lowest marketing costs. To reduce the cost of marketing it is required to determine the most feasible channel. Product characteristics and the operational area are the major factors to be considered while selecting a distribution channel. In a different channel, another distribution approach can be adopted to get the products more economically to the ultimate user.

An important factor to be assessed in this process is cost-effectiveness. It is observed that the longer the chain of intermediaries in product distribution, the higher is the cost of marketing. Since cost is one of the determinants of profit, it should also be viewed from the angle of product distribution. The exclusive distribution approach is always confined to an area. Such a distribution plan can be useful in markets where demand concentration for the product is low. In urban areas where market competition for the product is high and the retailing is at a large scale, a selective distribution policy would be more useful. However, retailers and consumers in areas where the purchasing power of consumers is low but a large number of retailers are in business may feel the need for extensive distribution of products.

10
Promotion Strategies

Promotion strategies are concerned with the planning, implementation, and control of persuasive communication with customers. Promotion includes advertising, personal selling, sales promotion, and publicity of goods and services. Advertising refers to the corporate-sponsored messages transmitted through mass media channels, including electronic and print media, and static communication sources like billboards, wall paintings etc. Personal selling involves strategies of establishing person-to-person business relations with customers. Sales promotion encompasses different techniques that support and complement advertising and personal selling. Publicity includes seeking favorable comments on products or service and/or the firm itself through a write-up or presentation for which the sponsor is not charged. These strategies may be designed around advertising, personal selling, sales promotion, or any combination of functions of these. In context of the above discussion, this chapter addresses issues on promotion-mix, new advertising and communication strategies, organizational structure, and supporting marketing strategies for companies intending to do business in international destinations.

Globalization has driven a bi-dimensional dynamics in the marketplace of growth with competitive differentiation and customer orientation through effective advertising and communication strategies. Most companies employ massive intellectual and financial resources in creating differentiated products and services, and building brand loyalty through customer-centric advertising. However, in many situations, differentiation needs to be perfectly blended with advertising and communication strategies to gain competitive advantage for companies. Consumers learn about alternatives from advertising, but many consumers do not see advertising for all relevant alternatives. The value of creating differentiated products is ambiguous when awareness of products and their characteristics is the key determinant of consumer behavior.

Advertising is heavily used in this process of personality creation. This follows logically from the fact that personalities are particularly useful for the creation of brand associations. Brand associations influence the 'evaluation of alternatives' stage in basic consumer buying behavior models. In this stage, and for these goals, advertising is considered to be the most effective communication tool (Brassington and Pettitt, 2001). Perhaps the most visible and best-known way of personality creation is by means of celebrity endorsers. Public personalities, sports people, pop stars, and movie stars are hired to lend their personality to a brand. This practice goes back at least a century, and is still growing in popularity today. Yet, basically all advertising influences the brand personality, not only when an endorser is used. Advertising and marketing communication approaches are largely used to create brand personality. Many multinational companies integrate a general model of advertising with a model of brand personality creation.

Multinational companies develop advertising strategies within the 'Big Five' human personality dimensions of extraversion/introversion, agreeableness, consciousness, emotional stability, and culture. Based on these human personality dimensions a number of new dimensions related to brands, namely, sincerity, excitement, competence, sophistication, and ruggedness in presenting a communication to show the vigor of product through advertisements, were also identified (Aakar, 1997). This pattern suggests that these brand personalities influence consumer preference in reference to excitement, human personality, and consumer desire.

Sales promotion encompasses different techniques (for example, samples, trading stamps, point-of-purchase motion, coupons, contests, gifts, allowances, and displays) that support and complement advertising and personal selling. Global advertising is largely uniform across many countries, although uniformity may not be necessarily found in media vehicles with a similar global reach. In many cases complete uniformity is unattainable because of linguistic and regulatory differences between nations, or differences in media availability. But with regard to products and services, localized advertising can still be considered as uniform in a given region. In contrast, multi-domestic advertising is a type of international advertising adapted to particular markets and audiences.

One of the major strategic issues associated with the development of effective promotion strategy is the availability of financial resources for a specific product/market. Distribution of the notional budget among advertising, personal selling, and sales promotion is another strategic matter. The formulation of strategies dealing with these determines the role that each type of promotion plays in a particular situation. Promotion strategy consists of planning, implementing, and controlling communications from an organization to its customers and other target audiences. The function of promotion in the marketing program is to achieve various communication objectives in the market segment. An important marketing responsibility is to plan and coordinate an integrated promotion strategy and to select specific strategies for the promotion components. It is important to recognize that word-of-mouth communications among buyers and the communications of other organizations may also influence the target audience of the company. The promotion-mix has the following components:

- Advertising
- Personal selling
- Sales promotion
- Direct marketing
- Publicity.

Advertising may be defined as the strategy of communicating a sales message to potential customers. Advertising plays a crucial role in international business worldwide and it is the critical factor in achieving sales goals in a tough competitive environment. It has been observed that in the globalization era, national and multinational companies are increasingly considering successful advertising as a prerequisite to profitable global operations. Advertising is one segment of a well-organized, continuous marketing plan. Effective advertising is a cumulative process that maintains current customers, attracts new customers, and establishes a favorable position for the business with competitors. Advertising will not cure slow business growth or low profits, nor will it create a better business person or a well-organized business. Advertising offers specified benefits to a specific or target audience. As part of a sound marketing plan, advertising becomes an investment in the future of the business instead of one more expense. An effective advertisement is based on careful analysis of the situation before money is spent.

Fashion advertisements (FAds) for optimum sales realization are a significant approach among various sales promotion tools. As discussed earlier, FAds have a greater impact on the elite clientele group as compared to other measures used for raising sales. Product branding and packaging technology is the core input for FAds. Attractive packaging and popular branding have a significant role in market expansion and product promotion. In a competitive market economy, brands are hired by manufactures for product marketing. In this system, new product managers face an uphill task. In marketing new products, it is essential to take potential as well as existing customers into confidence through effective communication management. When such awareness is not built up, the new product manager gets fringe benefits but the brand owner gets a higher share of consumers' money. As such, these companies may not be in a position to establish their own brand related to weaknesses pertaining to capital, technical know-how, and market guidance. This may pose a future threat in selling their product. In the long run their identity merely is of a manufacturing unit, not a product seller. Packaging in the competitive product market is an important determinant as far as buyer behavior is concerned. The more attractive and durable the packaging of a product the greater the product resistance and market demand. 'New packs' may be the hard core of FAds that could offer greater appeal to target customers. It requires enough capital being invested in the packaging technology.

Advertising, direct marketing, and public relations are important tools for international marketing. The process of advertising in an international business begins with a market situation analysis conducted to assess marketing opportunities for the product in the existing market. After identifying the market environment, marketing strategies are formulated and supported by communication linkages. Advertising strategies are developed in accordance with the marketing plan, and advertisements are released according to the media plan. Hence, commercial advertisements seen by the consumer are the tip of an iceberg emerging from a situation analysis, trade goals and strategies evolved by marketing and advertising managers. However, it is difficult to establish whether advertising is the first or the last component in the entire process of marketing. Despite numerous research efforts on the function of advertising, a unified theory has not yet emerged.

Developing international advertising strategy

Advertising is a key instrument in promoting products and services in international markets. However, the rationale of advertising and media communication strategy varies regionally and among industries. Advertising carries a corporate communication about products and services to consumer segments without any limits. It may incite cultural conflicts and convey deceptive information in its efforts to gain rapid market share. Hence, many firms have ethical codes for advertising. Advertising makes a significant contribution in international business as it involves a commitment of funds. Though the cost of effective and ineffective advertising varies, both incur high expenses. An effective advertising campaign represents a tangible resource and is internationally transferable from one market to another. Further, advertising is regarded by many international companies as the sole means of establishing and maintaining a desired position for products in the international market. Once a desired position for a product or service has been achieved through advertising, any local market interventions such as price or promotion-related effects have a relatively low impact. Thus, global advertising needs a certain degree of centralization in terms of controlling the expenditure and carrying the sustainable impact of communication in the markets all over the world.

Multinational companies may derive important strategic decisions for international advertising to make their brand image stronger. The concept of an advertising campaign developed at home can be transferred to other countries by translating them into local languages or customizing the advertising as per the socio-cultural and market requirements of different countries. Many firms strongly believe that a successful advertising concept has no geographic boundaries and may do well anywhere. The critics of standardization in advertising argue that cultural differences require a campaign to be tailored to each country. On the other hand, customization of advertising for a particular country may be justified on the plea of cultural differences and public communication regulations. A standardized advertising approach seems particularly unsuitable in developing countries, where differences in lifestyle, per capita income, market structure, and various aspects of the environment prevail as compared with developed countries.

It is a complex issue for multinational companies to choose between standardization and localization when deciding on advertising strategy.

Some factors that help firms to determine the type of advertising strategy to be adopted include choice criteria, advertising transferability, and organizational support. Choice criteria comprise factors associated with environmental factors, advertising objectives of the company, and the target market where the advertisement needs to be delivered. A range of environmental variables affect advertising transferability across national boundaries, as listed below:

- Market competition in the destination market
- Socio-economic levels of consumers
- Household size and decision marketing unit
- Level of education
- Emotions, personality, and attitudes of consumers
- Ethical and moral standards
- Availability of time on commercial broadcast media
- Adequacy of coverage of the market by broadcast media
- Availability of satisfactory electronic, print, and outdoor media
- Dominance of social media
- Government control on public and commercial communications
- Legal restraints on advertising within the country.

It has been observed that *advertising objectives* vary in each country. Though advertising of products and services does not lead directly to sales, it can be effective for transferring the customer from one phase to the next. Advertising only attempts to bridge the gap between unawareness of a product or service to awareness among consumers, which further leads to comprehension, conviction, and finally action towards buying the products. Advertising objectives for products in developing countries are largely oriented towards perceived benefits, value for money, and better quality. Advertising strategy also depends on the *target market* in the host country. If the proposed advertising campaign for another country is aimed at a segment that is more or less similar in nature to the segment served in the home country, standardized advertising would appear satisfactory. Further, the attributes of a product also determine whether such advertising is appropriate. Product attributes include buying and usage patterns, psychological attributes, and cultural factors. *Media availability* and the *cost-benefit relationship* are other factors that determine the nature of advertising to be implemented in the host country. If the cost of adaptation of advertising to local conditions exceeds the possible benefits, it would be wise for a firm to choose standardization of its advertising content.

The *transferability* of a commercial advertisement faces various barriers comprising cultural, legislative, competitive, and implementation factors, and communication styles. Cultural barriers also carry the social and cultural limitations inculcated by the prevailing religion. Local phonetics for standardized advertisements may have specific negative implications that hinder the free transferability of commercials. Competition for a product varies from one country to another, and sometimes requires firms to change their viewpoint for proper positioning. Legislative barriers may be those imposed by public laws in a country, like child and gender abuse.

However, some companies develop global prototypes considering all possible barriers in other countries, making their transferability easy. Such global prototypes comprise the facilities of voice-over and the provisions of visual change to avoid language and cultural problems. These advertisements may also be re-shot with local spokespeople using the same visualization. Drakkar Noir, a man's fragrance, in an Arab print advertisement shows a woman's hand caressing a man's hand holding the product; in the USA the same hand grasps the man's wrist. Colgate-Palmolive, Proctor & Gamble, Nestlé, and Coca-Cola often use prototypes of actual commercial and advertisement samples that demonstrate what headquarters want in the advertisements with specific written guidelines for acceptable deviations from the prototypes in terms of story and message (usually limited flexibility) and creative aspects (layout, color, symbols – usually more flexibility), and with suggestions for appropriate media.

Advertising categories

Advertising is a creative task, which varies according to the needs and tastes of the target group. It can be categorized into audiences, types of advertiser, mass media, and functions. There are three sets of audience in advertising – business, professionals, and consumers. *Business-to-business advertising* is directed towards processors, wholesalers, and professionals. Advertisements carrying messages for raw materials, business machines or services to manufacturing units are categorically of a business-to-business nature and can be termed *industrial advertising*. Similarly, when an advertisement is directed towards a group of professionals, like engineers or doctors, it is called *professional advertising*. The advertising audience may also be categorized as a mass or a class.

Biscuits may be advertised for a mass audience while a rich processed and canned food may be directed towards a high-class audience.

The volume of the business of a company and the geographical coverage of the product would be another consideration for classifying advertising strategies. The countrywide coverage of a product such as automobiles, television sets, refrigerators and the like is called *general advertising*. Advertising for a product limited to regional markets for local consumption is defined as *local advertising*. Advertising can also be classified with reference to the medium used to deliver the message, such as national TV network, cable TV network, radio, newspapers, and magazines of national and regional status.

The functional classifications of advertising are of an illustrative and symbolic nature. Advertising classification according to functions can be given as:

- Product advertising
- Non-product or institutional advertising
- Primary advertising
- Selective advertising
- Direct action advertising
- Indirect action advertising.

Product advertising emphasizes the characteristics of the product and other related issues while an institutional image is built up by *non-product or institutional advertising*. The brand of the company, its public relations aspects and regulations form the theme of the advertising in this category. For example, Tata Steel company prefers institutional advertising highlighting biographical excerpts of the founder-veteran or emphasizing the development nurtured by the company in rural housing, education, health, and sports. Such advertising mentions the product of the company as a secondary message.

Primary advertising attempts to promote a market for unbranded indigenous products while *selective advertising* is done for products that are branded or fall in line with related brands. Selective advertising is used by individual companies to stimulate a market for their products after demand has been established. *Direct action advertising* generates instant demand for the product and is found to be an effective stimulus for short-run sales campaigns. The art of abstract communication is called *indirect advertising*, which does not seek immediate attention of the mass audience. However, this type of advertising is appreciated by the class audience to some extent.

The advertising process

As stated earlier, advertising is closely associated with marketing variables. Hence, the process of advertising depends largely on the market environment. The marketing plan enables the advertiser to set objectives, the advertising budget and the time plan for scheduling the advertisement. The important determinants of the advertising process are communication strategy and media strategy. The communication strategy includes the type of message to be released, its length, content, audience interest, product characteristics, and frequency of message dissemination. Message tactics also need to be developed in accordance with the media and media watchers. An appropriate media strategy must be selected by a firm after carefully analyzing media responses. Upon selection of the appropriate media, firms should work out an operational plan for putting out the advertisements to meet the market objectives. The advertising process is illustrated in Figure 10.1.

The advertising process generally moves through five distinct stages of setting the advertising objectives, developing an advertisement by analyzing its content, choosing the right advertising strategy, planning for insertion of the advertisement in an appropriate media, and finally launching the advertisement to the right target audience, as illustrated in Figure 10.1. Audio-visual advertisements can often be ineffective as they fail to profile products that match the market attributes. Analyzing competitor's advertising strategies for similar or identical products will help advertising companies develop successful advertisements by embedding their own unique communication propositions.

Bonafont – a purified water bottling company in Mexico – initially focused its advertisements with a psychographic dynamics leaning towards teen female consumers by symbolizing that its bottled water is low in sodium and has implications on reducing weight. A balance of verbal and non-verbal (visual) elements made the advertisements appealing and drove them to the top of the mind. Besides emphasizing corporate postures, such as a technology company (Apple), or price-sensitive company (Wal-Mart), multinational companies categorically follow advertising strategies as discussed below:

- Drive: Multinational companies dealing with well-established brands that contribute a proven market share like Coca-Cola use this strategy of advertising by inserting advertisements in any media with high frequency over a short span. Such advertising strategy helps in

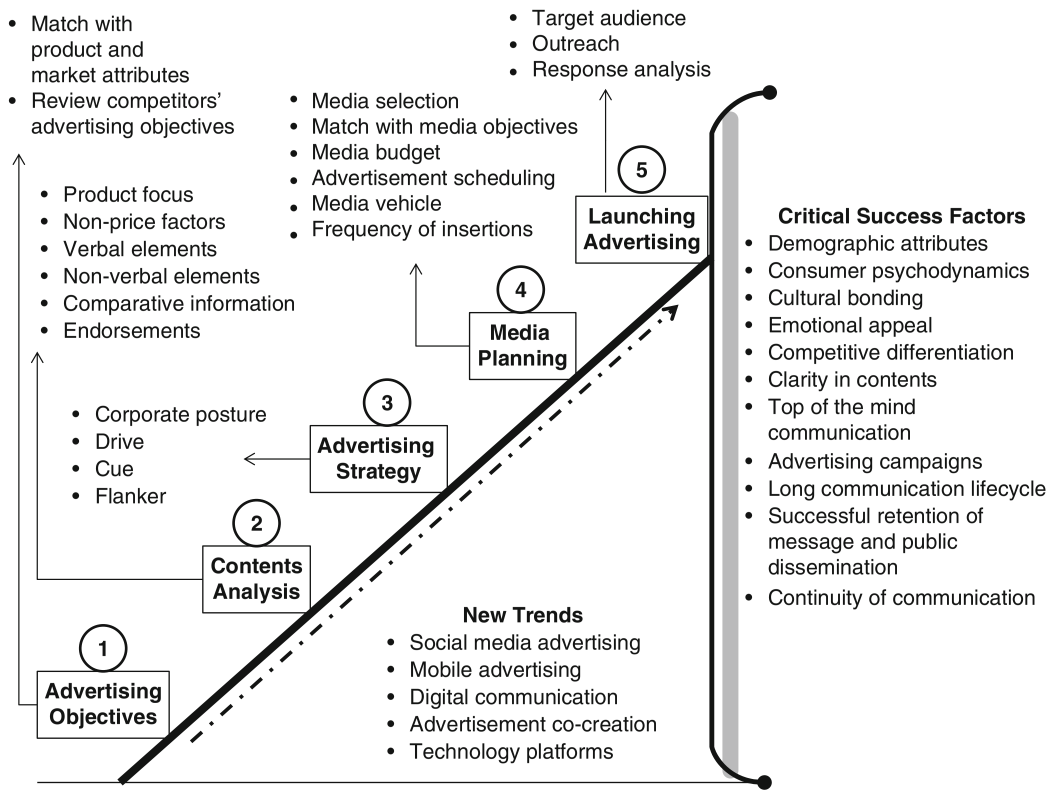

Figure 10.1 Advertising strategies and process

differentiating the product of the company from competing products and brings it to the top of the mind of consumers.

- Cue: This is long-term advertising strategy to develop a positive impact on consumers. Companies engaged in marketing consumer products, which have reached the stage of maturity in the product lifecycle, use cue strategy in their advertising. Accordingly, the products are advertised in any media for a reasonably long period at regular intervals. Such product advertising strategy builds brand image and confidence among consumers towards buying and consumption.
- Flanker: It becomes difficult for companies to increase sales when the products become stagnant in the market. Flanker advertising strategy adds value to the brand name by inserting prefix words or phrases to the brand name and suffix words or phrases to justify the prefix. For example, Nescafé – a popular soluble coffee brand of Nestlé Company – can be advertised using flanker strategy as 'new (prefix) – Nescafé – extra freshness (suffix)'.

It is necessary to delineate the objectives in building a good advertising program based on an advertising campaign. It would be wrong to assume that all advertising leads directly to sales. Sales are a multiphase phenomenon, and advertising can be used to transfer the customer from one phase to the next: from unawareness of a product or service, to awareness, to comprehension, to conviction, to action. The objectives of advertising may be defined by any one of the following approaches: inventory approach, hierarchy approach, or attitudinal approach. The entire advertising process results in the exposure of the advertised product as an output that needs to be evaluated for its effectiveness in a given marketing situation. Media consultants, media representatives, and advertising agencies form the organizational structure, and within its frame the process of advertising is made functional. The response analysis of advertisement shows mixed impacts. Sometimes the advertisements receive a very positive response from consumers and augment sales.

Media planning

Media planning is an essential exercise in advertising management. In developing a media plan, five basic dimensions need to be assessed, namely, media objectives, target market, media type, media vehicle, and media scheduling. Besides these factors, continuity is also an important indicator related to time scheduling of messages in the media. At the introductory stage it is necessary to allocate an advertising budget for higher media time that can be gradually reduced as the market advances. However, the lifecycle of the merchandise also needs to be considered while setting objectives.

Setting target markets

It is necessary to take the help of a media specialist in identifying target markets for the merchandise and the type of advertisement required. Market segmentation principles have to be considered while deciding upon a target market for the physical distribution of the merchandise, and the type of media has to be selected accordingly.

Media selection and budgeting

The data on effective media response has to be analyzed for selection of a particular media. The cost of advertising on media is worked out on the basis of frequency and continuity to be set for allocating an advertising budget. While selecting media for advertising the following factor combinations have to be addressed by the advertising agency:

- Internal and external fit of media type to target market
- Match of media type of advertising objectives
- Compatible media to advertising budget
- Media strengths to make the advertisements competitive.

It is necessary to make substantial budgetary provisions in the media plan, if the advertising has to be done in more than one media type. However, the relative weights of the media have to be decided on the basis of analyzing the 'efficiency indicators' of each media in particular.

An advertising planner has to decide on the scheduling of advertisements in the media with reference to periodicity per day, hour, month and year. When an advertisement should be aired on the media and during which hour on the day should be planned by considering the behavior of the audience while watching the media and the nature of the product. For example, breakfast foods are scheduled to be advertised during breakfast hours to have an effective impact. Scheduling advertising with respect to media time, periodicity in a month, and the number of months in a year would be helpful in allocating resources in advertising budgeting and media buying.

The advertising planner needs to develop a media time flowchart once the scheduling exercise is completed. Although the *media schedule plan* is not a permanent document as some elements, such as type of merchandise, style of copy, and media policy are subject to change without notice, the flowchart would be the guiding bird's-eye view for the planner.

Social media is good for marketing from many points of view. Smart companies are exploring how to use this information channel internally to infuse peer-to-peer collaboration. Most firms involving social media as a marketing communication channel tap the knowledge and expertise of consumers for mutual benefit and the brand-building process rather than a traditional knowledge management approach where people dump their information in a giant database that nobody reads. Such firms can create an environment where they go through peer-to-peer collaboration. Emerging firms may initially build very small collaborative tools that could enable their peer communication design to kick off the consumer/company collaboration process and gain in understanding how it provides mutual benefits.

Most firms operate social network platforms like Facebook and Twitter to communicate with their customers and enforce that posted messages are on topic by using a moderator empowered to steer or delete inappropriate discussions. For example, Mazdaforum.com utilizes a 'report post' feature in many places on the board so that members are able to alert the moderator to postings they consider off-topic, offensive or bothersome to other members so that the moderator can delete them. Such peer communication not only allows the firms to appear customer-centric but also to gain competitive advantage within the industry. As market competition is growing, firms put often reckless effort into maximizing the ease of use of the social network platforms to extend interactions, particularly for individuals who are expressive and detail-oriented. For example, Mini Max USA, a manufacturer of woodworking tools based in Duluth, Georgia, allows its forum members to use a rich text editor, with which they can add web links, underline, use boldface, change font size and color, and use emoticons (Adjei et al., 2012).

Direct response advertising

Media advertising largely attempts to generate an indirect response towards the merchandise or services advertised. *Direct response advertising* includes mail-media advertising, catalogues, departmental store advertising, yellow pages, handouts, and window displays. Media marketing is an effective buyer/seller interactive system in which the advertised merchandise is brought close to the buyer by using one or more advertising styles, and the response is measured with reference to the location and volume of the transactions. Mail-media advertising involves promoting the merchandise market by establishing contact with potential and existing consumer through mail order, publicity materials, and telephone services. In this process no personal selling is performed. Direct mail advertising has many advantages. It attempts to build goodwill between sellers and buyers. Hence mail advertising is often identified as productive advertising technique. The numerous advantages of this system are listed below:

- It is highly selective
- This form of advertising is elastic as retailer can add or delete the name of consumer at his discretion
- A wide variety of merchandise or services can be advertised to the same consumer
- Privacy on consumer preference/order can be maintained
- Market competition can be avoided instantly
- Direct mail advertising is personal-specific
- Home delivery of goods and service can be assured
- Performance of merchandise/service sales can be monitored and evaluated.

Despite the many advantages of direct mail advertising, there are also some demerits. The most commonly observed problem in mailing business communications is the high expenditure involved in the process. Periodical updating of the mailing list is a major task in direct mail advertising. It sometimes becomes exasperating to the persons addressed, and they feel offended when the 'copy' of the mail order does not match the profile of the person to whom it is sent.

The different types of mail order advertising comprise of a comprehensive text and visual copy that attempts to make the message interesting reading. The various types of mail order advertising are:

- Business reply mail with pre-paid postage fee
- Information enclosures, circulars etc.
- Postal cards without an order form
- Self-mailing folders
- Booklets and catalogues.

Mail order advertising is a quantitative exercise and requires the systematic processing of data. Hence computerization is the basic requirement to handle the data with reference to classifying consumers, sorting types of orders, making a record of compliance to order, and other functions.

Display advertising

Window display is the most prominent style of direct response advertising as it establishes ready information, product impression, and a buying impulse of that helps in decision making. Display advertising can be indoor or outdoor. Indoor display advertising consists of showcase advertising and indoor displays in departmental stores. There are some common kinds of indoor display of merchandise, as listed below:

- Display of merchandise in showcases of departmental stores with an abstract and combination
- Display of merchandise in decorative style in showcase/window
- Display of prestige copy in a simulated environment
- Display of merchandise in a dummy theme display, and demonstration of use of merchandise.

The outdoor display of merchandise or services may be done in the form of signboards, commercial hoardings, posters, neon signs, vehicle sign boards, train posters, electronic sign boards, balloons, fiber optical billboards and other special effects. The merchandise advertising on a vehicle is called transit advertising, as it carries a message from place to place. It is a good way to reach specific markets and can be tailored to the needs of geographical market segmentation.

The concept of promotion-mix

Personal selling consists of verbal communication between a salesperson or selling team and one or more prospective purchasers with the objective of making or influencing a sale. Many companies feel that personal selling is a better strategy to manage the interface of buyer and seller, and therefore annual expenditures on personal selling are larger than advertising. However, advertising and personal selling strategies share some common features, including creating awareness of the product, transmitting information, and persuading people to buy. Personal selling is an expensive way of persuading buyers as compared to various techniques of advertising. Salespeople can interact with buyers to answer questions and overcome objections, they can target buyers, and they have the capacity to accumulate market knowledge and provide feedback. *Sales promotion* consists of various promotional activities, including trade shows, contests, samples, point-of-purchase displays, trade incentives, and coupons. Sales promotion expenditures are substantially greater than the amount spent on advertising.

Direct marketing includes the various communication channels that enable companies to make direct contact with individual buyers. Commonly found direct marketing techniques are catalogues, direct mail, telemarketing, television commercials, radio, magazines, newspapers, electronic shopping, and kiosk shopping. The distinguishing feature of direct marketing is the opportunity for the marketer to gain direct access to the buyer. Direct marketing expenditures account for a large portion of promotion expenditures. Electronic shopping is one of the newer forms of direct marketing. *Publicity or public relations* for a company's product, service, or idea involves communications placed commercially in the media. The objective of public relations is to encourage the media to include company-released information in media communication.

Marketing communications in emerging markets have been institutionalized by firms as relating to a family environment. However, it has been observed that parental and sibling influences on communications reduce with age, whereas peer and media influences expand with age. Television and celebrities play a significant role in disseminating corporate and marketing communications and influence adolescents irrespective of gender category. Children experience magazines and television as predominant media whereas teens are primarily influenced by visual merchandising, hands-on experience, and identifying fashion product users (Seock and Bailey, 2009). Social learning theory explains this phenomenon as positive reinforcement, and it occurs when a behavior (response) is followed by a favorable stimulus – a communication that increases the frequency of the analyzing and adaptation behavior of consumers. In the conceptual foundations of social learning theory, respondent conditioning and observational learning are empirically supported approaches to understanding normative human development and the etiology of psychosocial problems (Thyer and Myers, 1998).

Marketing communication has four elements, namely, credibility, understanding of an audience, a solid argument, and effective communication. Consumer socialization through peer communication using social media websites has become an important marketing issue through the development and increasing popularity of social media. Most firms investigate peer communication effectiveness through social media websites, individual-level tie strength, and group-level identification with the peer group as antecedents, and product attitudes and purchase decisions as outcomes. A study with survey data from 292 participants engaged in peer communications about products through social media confirms that the two antecedents have positive influences on peer communication outcomes. Online consumer socialization through peer communication also affects purchasing decisions in two ways: directly (conformity with peers) and indirectly by reinforcing product involvement. In addition, consumer's need for uniqueness has a moderating effect on the influence of peer communication on product attitudes (Wang et al., 2012).

Peer communication and its effects have become an increasingly potent force capable of catapulting products from obscurity into runaway commercial successes. Harry Potter, collapsible scooters, and Smart cars are examples of the considerable power of peer communication. As globalization and brand proliferation continue, firms intend to focus marketing communication to peers to influence consumer decisions and dominate the shaping of markets.

In the recent past celebrity-based communication has become a very popular way of pushing brand messages among peer groups. The typology includes celebrity-owned brands and celebrity-anchored brands. Fashion clothing, accessories, and perfumes may be cited as good examples of celebrity involvement in disseminating the brand or product information. The relation between marketing communication and celebrity appears to be the stimulus in triggering arousal and purchase intentions among consumers. The popular appeal of the celebrity drives the sales of products and services significantly and helps in developing strong consumer opinions (Treme, 2010). Celebrity endorsement can significantly influence marketing communications oriented towards consumers' purchase attitudes via both direct and indirect effects through product-attribute constructs (Sheu, 2010). As the fashion cycle narrows because of increasing competition, manufacturers promote their brands through countless agents including celebrities. In the past, fashion used to be a highly centralized industry where new trends were diffused from a single location.

The peer communication effects generated from various promotional programs may be monitored for longer periods of time and measured in reference to achieving the long-term goals of fashion apparel manufacturing and marketing firms. Also, variability of promotional response in different retail markets, channels, and outlets should be analyzed in order to make required modifications in the process of delivery of promotional programs to customers. Such a management strategy would allow for better communication planning and marketing effectiveness, with consequences that extend beyond economic benefits for the retail company itself and reverberate on relationships with suppliers and cooperative promotion decisions. Consumer oriented firms must expand aggressively into new markets. Once the retailing firms saturate markets with outlets, they can sustain their earnings and business growth by improving the mix of products sold by offering attractive marketing communications. At times, firms also need to alter their communication, advertising, and merchandising strategies to better respond to the preferences of potential customers. Thus, peer communication programs should be strategically conceived by the firms considering long-term effects on volume of sales and building loyalty among customers (Rajagopal, 2011).

Institutional advertising

Institutional advertising is a form of public relations performed through communicating messages to the target audience directly related to the institution. It is not strictly necessary that an institution developing an advertising message should be of a commercial nature. The strategy for institutional advertising needs to be selected by matching the objective of the institution and its clientele. For example, a business company may develop an institutional advertisement for distributors using the employees of a company, an association of medicos may release a message of social health awareness, a government can generate awareness of franchising during elections and so on. Institutional advertising involves non-personal mass media communication by an identified institution to accomplish its goals. There are various type of institutional advertising practices observed, of which some major kinds are released through the following messages:

- Social awareness about civil rights, health, population etc.
- Promotion of a public service
- Generating awareness about innovation, achievements, new facts of development
- Improved or added market value of products
- Employees' welfare and image of the institution
- Placement advertisements with profile of the company's achievements
- Opening debate on controversial issues.

Institutional advertising thus can be of both a commercial and non-commercial nature. Functionally, institutional advertising can be classified into two categories – image advertising and advocacy advertising. Image advertising is designed to mobilize opinion about the institution and create an image of its merits. It can thus be stated that image advertising exhibits the human face of an advertiser. Image advertising is of four types, as listed below:

- Institution identification advertisements
- Goodwill advertisements
- Civil rights and responsibilities advertisements
- Public service advertisements.

Such advertisements are non-argumentative and non-controversial as most of the themes are of public interest, such as population control, crime prevention, water, food and energy conservation, campaigns against drug abuse and the like.

Advocacy advertising meanwhile attempts to highlight contemporary arguments directed at specific general clients, such as political activists, consumer groups, media, and government agencies. Advocacy advertising consists of the following forms:

- Ideological advertising, which is principle-oriented and attempts to highlight the ethics of an institution
- Defense advertising, which argues to protect the image of the institution against contemporary controversies
- Reply-bound advertising, which seeks responses to the issues highlighted in the advertisement
- Corporate posture-led advertising, which emphasizes the viewpoint of an institution on an issue, with strong arguments to seek public acceptance or a referendum
- Recruitment advertising, which asks interested persons to present their views in support of the ethics of the institution prior to joining the institution.

An institution can plan a series of advertisements as a campaign, supporting its views and building its image simultaneously among the clientele group. Institutional advertisements are generally released as multi-media and cover a substantially large segment of the target audience.

Social media, advertising, and market communications

Social media and collaboration solutions allow information to flow in multiple directions rather than just the top-down> For example, by using wikis and micro-blog applications for sharing short bursts of information, marketing firms can *crowd-source* ideas and involve employees more directly in innovative strategies. Firms can build greater internal loyalty by actively soliciting continuous feedback on issues related to change. Social media is an important addition to a traditional change management program, one that can dramatically increase the acceptance of change and advance an organization more predictably towards its business goals. Collaboration and social media tools can reduce the time an organization needs to navigate large-scale change programs and deliver a better solution for consumer-related marketing issues in the future.

The advancement of information technology in global business has resulted in the prevalence of online communities to drive the virtual business of many firms. Online communities are connected through social network platforms that allow consumers to exchange information about products or services virtually. Social network platforms are used by consumers to compare prices among competitors. These platforms have also opened freeways to exhibit products online and share opinions or experiences on the products and services. Consequently, marketers have lost control over how and where their products are presented to potential customers. Some of the more sophisticated online retailers have used this trend to their advantage, employing recommendation algorithms, user reviews, and unique customer-generated content to build trust and increase a consumer's propensity to purchase. A variety of online players, including Amazon.com, Netflix and internet radio site Pandora, are recognized for having state-of-the-art recommendation systems that effectively match customers with the products, movies, and music they love.

Social media has widened opportunities for consumer-oriented firms to expand their market beyond bricks-and-mortar stores. Consumer networks are used by most firms to supplement traditional sources of buyer insights with a wealth of information gathered in community sites such as Facebook, LinkedIn and Twitter, as well as customer forums and product review services. Monitoring the information flow on social media gives firms unique access to unfiltered feedback from customers, which may not be possible to obtain through other means such as focus groups and surveys. Firms intending to experiment with monitoring the Web can outsource the entire process to third parties, or build their capabilities internally. However, as the information technologies are evolving rapidly, firms need to choose carefully from them to reach their consumers and avoid locking themselves into a solution that constrains their future capabilities.

New insights of firms on marketing and sales to gain competitive advantage drive them to continue using consumer online support besides advertising their products and services. Social networks also drive traffic to firms' retail websites. Firms can engage employees, customers, suppliers, and other third parties as active participants in the innovation process, expanding the range of ideas, and gathering real-time feedback on their potential take-up. For example, Nokia operates an online laboratory that allows users around the world to download beta applications and provide feedback to its product development teams. This strategy provides an early opportunity to identify potential problems.

There are many companies that have developed their posture in the market on the back of social media. IBM has emerged as a social business because of the way it has layered the barriers of reaching out to people within the organization. Most companies are also leveraging tools of social media in order to develop their image for interacting with stakeholders and customers. IBM operates in 170 countries and functions through development teams to build a product and position it in different markets against competing products. The functional teams know that in positioning the products there is a need to bring together the right consumers to bear through sustainable social networks. IBM attempts to brings the right skills and the right intellectual property together to support the operations of the company with existing and potential consumers. Inside IBM there are almost 70,000 communities that represent science and technology, associated with the products in every industry that the company serves, and with every standard that the products bear. Some communities are made up of a narrow access-controlled list of people, maybe focused on an acquisition, and some are communities with tens of thousands or even a hundred thousand people, sharing information about a particular focus area. The major challenge of social media is to develop collaboration capabilities and co-creation of brand personality. IBM has developed practitioner portal to leverage content more quickly, to locate relevant people faster, to discover people they do not know who can help them on the project, and to grow their own capabilities by leveraging available tacit knowledge and wealth of information (Kiron, 2012).

General word-of-mouth opinion is informative about how people react to variability in product and service performance within a niche. However, as communication circles expand, the reach of informal communication can be enhanced at various territorial levels. Customer acquisition, retention, and referrals are co-created by consumers and market players associated with the company on social media platforms. Communications delivered through such platforms explain that with better consumer perceptions on products and services, the buying decision would turn positive and more consumers would be likely to remain with the brand or market, which confirms the link between communication quality and customer satisfaction. The power of word-of-mouth communication and its influence on consumer decision making is well established in various research studies. The recent adoption of online communication by many consumers has facilitated a fundamental change to the structure of many inter-personal interactions by exposing consumers to electronic word-of-mouth from virtual strangers. The emergence of the internet and social networking has spawned an interest among consumer communities that helps consumers in decision making (Steffes and Burgee, 2009).

Social media communication is one of the most common and effective interventions in business communication as well as in forming the inter-personal relationship. Young consumers are the next generation of loyal customers. Those with effective communication platforms tend to have higher opportunities to interact with peers and post them with their observations on marketplace and shopping dynamics. To disseminate their ideas among the peers, it is important to speak their language independently. It may often be difficult for companies to match the voice of customers with specific language skills with their corporate communication patterns. The growth of technology-led social media communication channels has offered a catalytic drive for electronic word-of-mouth communication since the beginning of the twenty-first century. More and more consumers use Web 2.0 tools such as online discussion forums, consumer review sites, weblogs, social network sites and the like to communicate their opinions and exchange product information.

Large manufacturers of consumer goods recognize the added benefit of the internet, especially the one-to-one relationships that it offers. Some large manufacturers have used the internet to introduce customized shopping options, thus becoming retailers themselves and providing yet another challenge to the traditional store owner. It is observed that online shoppers can choose the hair, eye, and dress color of the doll they purchase by visiting the Barbie website of Mattel Company, but shoppers in traditional stores lack these options. Through internet shopping customers gradually reveal their demographics and purchasing patterns, including date of birth, average spending, product preferences, and hobbies. Web-based businesses largely use this information as a platform to create an interactive loyalty program and database marketing.

Although consumers can research high-price items such as cars and real estate via the internet by analyzing the information on the attributes of offerings, the deal is still more effectively done face to face as the confidence of buyers is boosted in personal negotiation. A retailer provides the necessary personal contact that the internet cannot offer. However, in future a successful retail store must build upon what the internet cannot give and add value to its customer's shopping experience by giving them that 'something extra' to ensure continued patronage. In contrast, certain industries such as music have won a significant percentage of the market away from retail outlets. There will always be a place for retailers that serve impulsive and recreational purchasers, as well as for those that sell products that don't sell well over the internet. Conventional retail stores need to reinvent their store ambience as their online competitors often compete offline and online.

Social media backed by the internet has changed the style of communication among consumer, companies, and associated market players. Social media websites are designed to carry verbal and non-verbal communication with stimulus contents to attract millions of users, many of whom integrate the sites into their daily lives and business practices. Thus, social media allow users to connect with peers, companies, and brands irrespective of individual familiarity by adding them to networks of friends (Zhang and Daugherty, 2009). Firms deploying marketing strategies through interactive and addressable communications within social media platforms improve their corporate image and products and services in various consumer communities. There are said to be six key elements that drive inter-personal communications in the social media, identified as love and passion, self-connection, interdependence, commitment, intimacy, and brand quality (Fournier, 1998).

Social media websites provide a public forum that gives individual consumers the opportunity to present their observations, as well as access to product information that facilitates their purchase decisions. User-generated online reviews on products and services have proliferated among peer consumers through social media, and this has a great impact on marketing (Trusov et al., 2010). The word-of-mouth that percolates in the neighborhood not only increases guiding messages for consumers, companies, and marketers towards converging better value chains but also alters processing of consumer information in building customer-centric marketing strategies. Social networks have become an integrated part of business. Companies could bring business and society together by creating shared value in association with consumers sharing marketing policies and business innovations. Such efforts would help firms offer better economic value to consumers. Firms can create social value by analyzing social media conversations, reconceiving products and markets, developing customer-centric attributes in the value chain, and building supportive consumer clusters on virtual platforms. A number of leading firms have already embarked on such initiatives (Porter and Kramer, 2011). Ben and Jerry, for example, has redesigned its consumer market on various social media platforms specific to consumer preferences, such as ice creams for children, youth, gender-specific, and health-conscious consumers. However, not all companies are able to use social media to derive benefit as well as create social value.

Some social media initiatives fail to bring benefits to companies because the initiatives are unable to create an emotional bonding between stakeholders and the company. Being a social media, it has its limitation of trust, territory, and target like any other media channel. Yet companies can create a winning strategy using social media, and focus on developing software to facilitate social networking, and use the tools to build communities. Such practice may encourage stakeholders and employees of the company to be more productive and sincere. Though social media can be a catalyst in creating dynamic stakeholder relationships, deriving benefits with an online community requires firms to develop leadership on building emotional capital that values community-building as a means of creating economic value (Huy and Shipilov, 2012).

As the social media is rapidly expanding in the twenty-first century, social networks and word-of-mouth play a catalytic role in influencing consumer preferences and purchase decisions through online platforms. Companies such as Dell and eBay have adopted traditional unidirectional advertising messages and are using them as a springboard to begin a two-way dialogue with consumers via social media platforms. Most marketers know that social media has emerged as a powerful way to generate sustainable, positive word-of-mouth marketing for the good of the business in a competitive marketplace. It has become essential for firms to mark success in business by using social media, to select the right social media platform, develop and post the right messages, and engage the right users to interact on the issue and disseminate their message among peers. Firms may also need to take a new look at the possibilities of employing innovative metrics to exploit the social media for achieving success in their marketing campaigns. Such strategies that firms consider may include developing an analysis of the customer influence effect, which could measure the influence of a social media user in simultaneous networks.

International organization designs

As competition grows in the global marketplace, the demand for new approaches to support changing organizational structures and workplace ambience has laid platforms for innovations from both organizations and workplace designers. New products, technologies, and organization concepts in manufacturing, marketing, and sales are frequently implemented with considerable knowledge of their impact on building marketing efficiency and value to achieve high-level organizational goals. The organizational designs are most commonly developed in reference to administrative controls, resource utilization, and employee dynamics (Kampschroer et al., 2007). There are three prominent organizational structures followed by multinational companies, namely, geographic, product-based, and matrix organizational structure.

In an *international business division structure*, a firm's activities are often separated into two units comprising domestic and international operations. The main function of such an international division is to draw a distinction between the domestic and international businesses. A worldwide *geographic organization* can overcome the problems associated with the international division structure. In this structure, foreign and domestic operations are not isolated, but are integrated as if foreign boundaries did not exist. Worldwide markets are segregated into geographic areas. Operational responsibility goes to area line managers, while corporate headquarters maintains responsibility for general planning and control. Some major attributes of the geographic organizational design of multinational companies are given below:

- Product lines are less diverse
- Products are sold to end users
- Marketing is a critical variable
- A similar channel is used for marketing of all products
- Products are based on local consumer needs.

This organizational design has various advantages, markedly delegation of line of authority and explicit responsibility. Specifically, the features of this system include:

- Responsibility and delegation of line of authority
- Manufacturing and product sales coordination
- Large number of executives

- Conflicts of roles and responsibilities
- Lack of specialists in the product sales line.

An important disadvantage in geographic organizational design is that a large number of top-level executives are involved in operational tasks, which leads to conflict in power struggles and command execution in the organization.

A *product-based organization design* is different from geographic design in that a worldwide responsibility to product group executives at line management level is assigned and emphasis is placed on the product line rather than on geographic differences. Coordination of activities in a geographic area is handled through specialists at the corporate staff level but in the product organizations focus is laid on the performance of product-mix in a given area. Multinational companies operating within this structure have a variety of end users, handle diversified product lines with high technological capability, and logistics costs are diverted to the local manufacturers. This type of organizational design has several benefits including:

- Decentralization of authority
- High motivation of divisional heads
- Adding or dropping new products with marginal impact on operations
- Control of product through the product lifecycle.

In this organizational structure, a firm is segregated along product lines considering each division as a separate profit center and the divisional head directly accountable for profitability. Decentralization of operations is critical in this structure, and more decisions are likely to be left to the local manager, usually making him more highly motivated. Decentralization of authority is a prime advantage of this structure where division heads are highly motivated. This structure allows the product managers to add new products and product lines and withdraw old ones with only marginal effect on overall operations. Another advantage of this structure is that the control of a product through the product lifecycle can be managed more readily and securely. However, firms following this organizational structure often face the problem of coordination among product and territory managers. In addition, it is felt that executives quickly get biased towards the regional and corporate staff in managing any product process.

In recent years, a synergy of all the above organizational structures has emerged among multinational companies, defined as a *matrix* *structure*. A matrix structure offers greater flexibility than the single line-of-command structures already discussed, and reconciles this flexibility with coordination and economies of scale to maintain the strength of large organizations. The attributes and advantages of a matrix organization include:

- Multiple command line
- Product and geographic coordination
- Product lines in a national setting
- Organization design reacts quickly to local environment demand.

For a multinational firm, the matrix organization is a solution to the problem of responding to both economic and political environments. General Electric Company in Asia operates with a matrix structure and has been successful. A matrix organization can encompass geographic and product-management components. However, there are some disadvantages in following this organizational design, including power struggles among supervisory personnel, and parallel decision making.

Organizational designs evolve to adjust to simultaneously evolving market structures. Most companies evaluate their organization designs periodically and take meaningful action to fit into an evolving market structure (Goold and Campbell, 2002). Organizational design plays significant role in building the corporate share and competitive profile of the company, and has value advantages at the bottom-line where customers account for the performance of the company. Hence efficient organizational design directs not only employee relationships but also drives corporate-level activities that provide real value and competitive advantage to the company.

Notes

3 Economic and Cultural Dynamics

1. *World Development Report 2005*, News Release 2004/89/S, World Bank, Washington DC.
2. For details on the corporate philosophy of Mary Kay Ash, see Hilary Weston, Mary Kay Cosmetics –Sales Force Incentives, Harvard Business School, Harvard, October 1999 (Ref 9-190-103).
3. Martha Hostetter, *The Marketing of Culture*, Gotham Gazette, Internet Edition, October 2003, http://www.gothamgazette.com/article/20031023/1/580.

4 Political and Legal Factors

1. Institute of Global Ethics, http://www.globalethics.org.

5 Market Research and Organizational Design

1. Homoscedasticity describes a situation in which the error term or random variation in the relationship between the independent variables and the dependent variable is the same across all values of the independent variables.

6 Internal and External Fit

1. Populism may be defined as a political doctrine supporting the rights and power of the people in their struggle against the privileged elite. It is a democratic political philosophy or movement that promotes the interests of the common people.
2. Monopsony may be described as a market dominated by a single buyer, unlike a monopoly wherein there exists a single seller.

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