Introduction to Marketing Essentials
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Lecture – 13
Understanding and Reaching Global Consumers and Markets – II

Welcome to this course on Introduction to Marketing Essentials. Now, we will start with module 13, now as you have seen in module 12, we are discussing the topic Understanding and Reaching Global Consumers and Market. We started the discussion on these in module 12 and we will continue the discussion in module 13 also.

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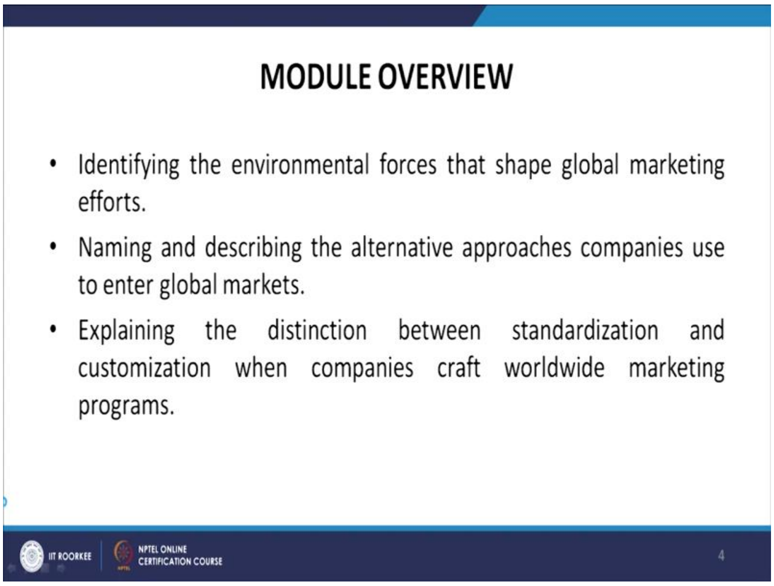

Now, let us look at what are the things that will be covered in this module. So, we will start with identifying the environmental forces that shape global marketing efforts. Then, we will talk about naming and describing the alternative approaches companies used to enter global markets. And after that, we will explain the distinction between standardization and customization when companies craft worldwide marketing programs.

Now, to introduce global companies; they conduct continuous environmental scanning of these five sets of environmental forces or factors that were described in earlier module also.

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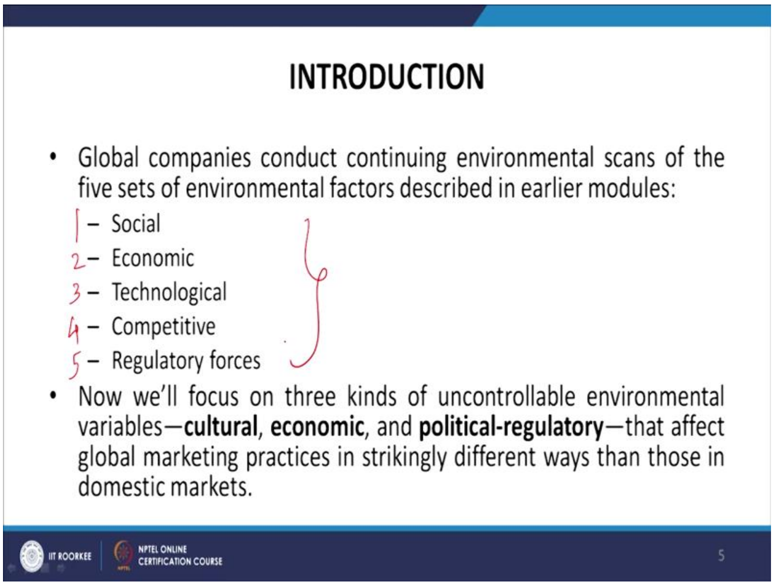

So, these five forces or five factors, environmental factors, external factors that the companies keep on scanning are the social, economic, technology, competition and the regulatory environment. Now, in this module we will focus on three kinds of uncontrollable environmental variables. And they are cultural, economic and political-legal environment that affect global marketing practices in strikingly different ways than those in domestic markets.

So, these are the factors that affect domestic marketing also, but these factors they become more important in global marketing. And now in this module we will talk about the affect of these cultural, economic, and political-legal regulatory environment and how it affects the marketing practices of global companies.

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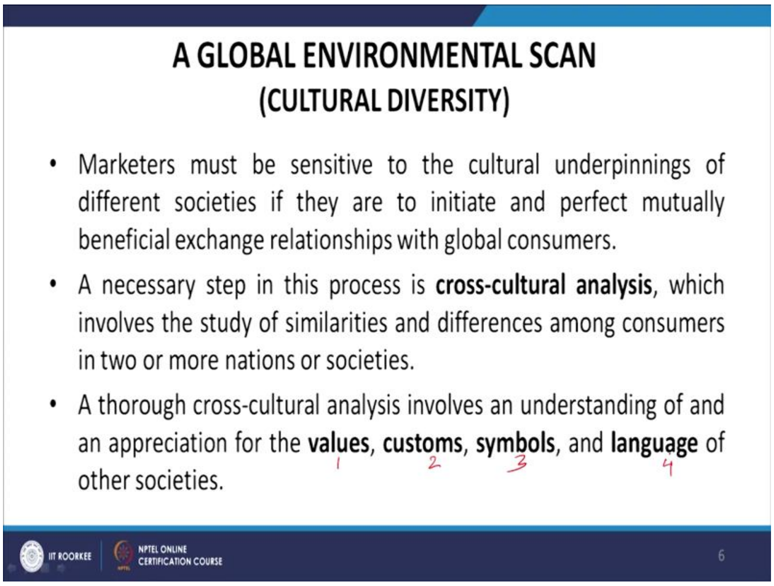

So, now we will talk about a global environmental scan and in this scan; we are talking of cultural diversity. So, marketers must be sensitive to the cultural underpinnings of different societies, if they are to initiate and perfect mutually beneficial exchange relationship with global consumers. So, now the focus is on the cultural underpinnings and how they affect the exchange of value between the company and the customer.

So, a necessary step in this process is the cross-cultural analysis; so, obviously when you are going from one country to another; the cultures are different. So; how do we understand the differences in these cultures? And for this, we use a tool which is called as cross-cultural analysis which involves the study of similarities and differences among consumers in two or more nations or societies or economies.

A thorough cross-cultural analysis involves an understanding of and an appreciation for the values, customs, symbols, and language of other societies. So, now we should be looking for similarities and differences in values, customs, symbols, and the language.

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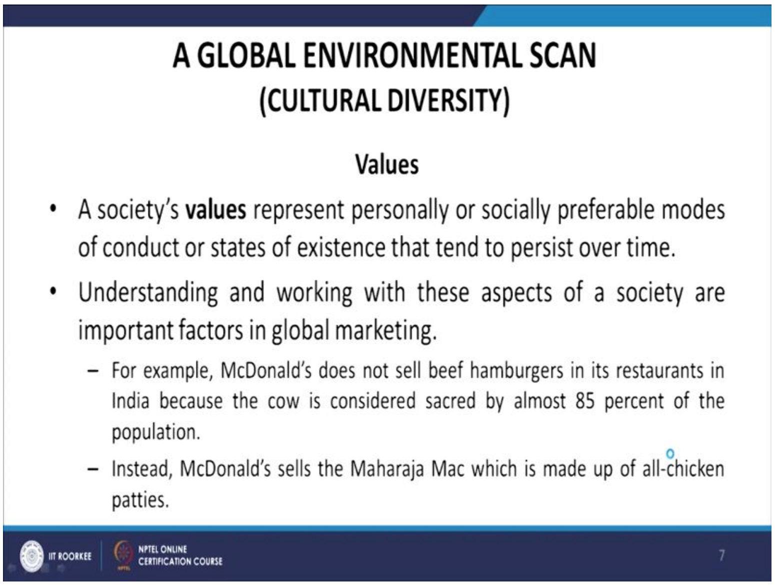

So, let us start with the values; a society's values represent personally or socially preferable modes of conduct or states of existence that tend to persist over time. A society's value represents personal or socially preferable modes of conduct or states of existence that tend to persist over time.

Understanding and working with these aspects of a society are important factors in the global marketing. For example, McDonald does not sell beef hamburgers in its restaurants in India because the cow is considered to be sacred by almost 85 percent of the Indian population; instead McDonalds sells the Maharaja Mac which is made of all chicken patties.

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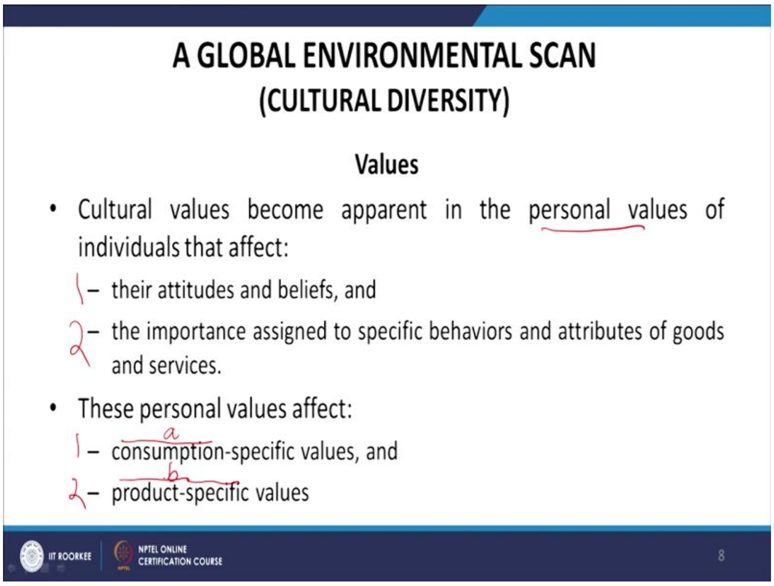

Cultural values become apparent in the personal values of individuals. So, to understand cultural values we have to look for the personal values and the personal values of individual affect; one is their attitudes and beliefs. Second is the importance assigned to specific behaviors and attributes of goods and services. So, these are the two things where to look for the personal values and the cultural values reside in the personal values.

So, we will be concerned with the attitudes and beliefs and the importance assigned to specific behaviors and attributes of goods and services. Now, these personal values they affect; one, consumption specific values and product specific values. So, now we are talking of one is; the consumption specific value and the second is the product specific values.

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Now, let us look at the customs; what are customs? Customs refer to the normal and expected ways of doing things in a specific country. Clearly, customs can vary significantly from country to country. So, although customs may vary within the country also, but in this module we will be worried; we will be talking about, we will be concerned with; how customs vary from country to country?

The customs of giving token business gifts is popular in many countries where they are expected and accepted. However, bribes, kickbacks, and payoffs offered to entice someone to commit an illegal or improper act on behalf of the giver for economic gain is considered corrupt in many culture.

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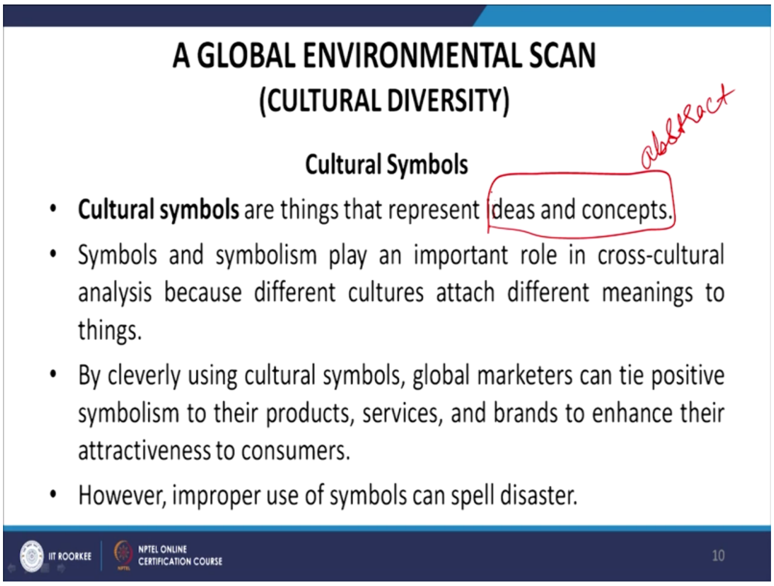

Now, next thing that we are talking about is the cultural symbols; cultural symbols are things that represent ideas and concepts. So, now you see that these ideas and concepts; they are abstract. So, we look for things that represent the ideas and concepts; so, this is idea.

Symbols and symbolism play an important role in cross cultural analysis because different cultures attach different meanings to things. By cleverly using cultural symbols, global marketers can tie the positive symbolism to their product, services, and brands to enhance their attractiveness to consumers. However, improper use of the symbols can act the other way and can spell disaster.

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Language is another component of culture; global marketers should know not only the native tongue of countries in which they market their products and services, but also the nuances and idioms of a language.

Even though about 100 official languages exist in the world, experts estimate that at least 3000 different languages are spoken. There are 20 official languages spoken in the European Union, Canada has two official languages; English and French and 17 major languages are spoken in India alone.

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English, French and Spanish are the principal languages used in global diplomacy and commerce. However, the best language to use to communicate with consumers is their own; as any season global market will attest to. Experienced global marketers use back translation, where a translated word or phrase is retranslated into the original language by a different interpreter to catch for errors.

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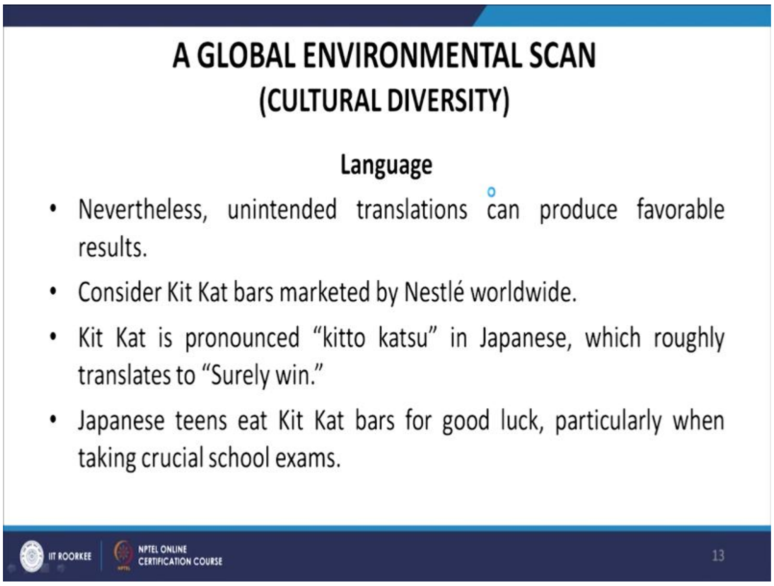

Nevertheless, unintended translations can produce favorable results. Consider Kit Kat bars marketed by Nestle worldwide. Kit Kat is pronounced "kitto katsu" in Japanese, which roughly translate to "surely win". Japanese teens eat Kit Kat bars for good luck, particularly when taking crucial school exams, but it may not be the case every time; sometime the case can be opposite of this.

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So, global; after having understood the cultural diversity; now let us move on to understand the economic consideration. Global marketing is also affected by economic considerations. Therefore, a scan of the global marketplace should include; the first is an assessment of the economic infrastructure in these countries. The second is measurement of consumer income in different countries and the third is recognition of a country's currency exchange rates.

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So, these are the three things that we should be concerned about in global marketing about the economic infrastructure, consumer income and the exchange rates; currency exchange rates.

So, it is the country's communication, transportation, financial and distribution system that is called as economic infrastructure; a country's communication, transportation, financial and distribution system. It is a critical consideration in determining whether to try to market to a country's consumers and organizations. Parts of the infrastructure that North American or Western Europeans take for granted can be a huge problem elsewhere; not only in developing nations, but even in Eastern Europe, the Indian subcontinent and China, where such an infrastructure is assumed to be in place.

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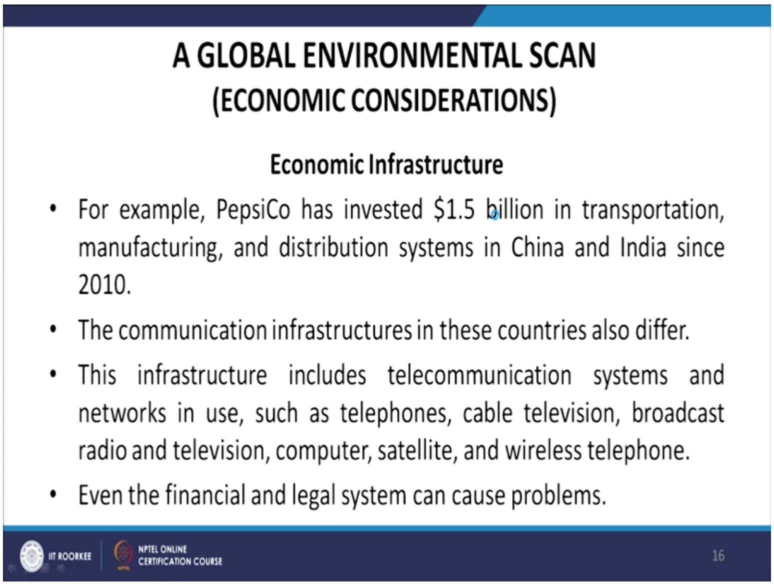

For example, PepsiCo has invested dollar 1.5 billion in transportation, manufacturing and distribution system in China and India since 2010. The communication infrastructure in these countries also differ, the infrastructure include telecommunication systems and networks in use, such as telephones, cable television, broadcast radio, and television, computers, satellite and wireless communication. Even the financial and legal system can cause a problem.

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Next economic consideration is the consumer income and their purchasing power. A global marketer selling consumer goods must also consider what the average per capita or household income is among a country's consumer and they should also consider how the income is distributed to determine a nation's purchasing power. And per capita income varies greatly between nations. A country's income distribution is important because it gives a more reliable picture of a country's purchasing power.

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Generally, as the proportion of middle income households in a country increases, the greater a nation's purchasing capability tends to be because across the world; middle income households are largest in number in any country. Seasoned global marketers recognize that people in developing countries often have government subsidies for food, housing and health care that supplement their income.

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So, people with seemingly low incomes are actually promising customers for a variety of products. Efforts to raise household income in developing countries; is evident in the popularity of microfinance. So, this microfinance is the tool and it can be used to increase the household income in many developing countries.

So, what is this microfinance? Microfinance is the practice of offering small, collateral free loans to individual who otherwise would not have access to the capital necessary to begin a small business or other income generating activity.

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An example of microfinance can be found in Hindustan Unilever's Project Shakti initiative in India. The company realized it could not sell to the rural poor in India unless it found ways to distribute its products such as shampoo, soap and laundry detergent.

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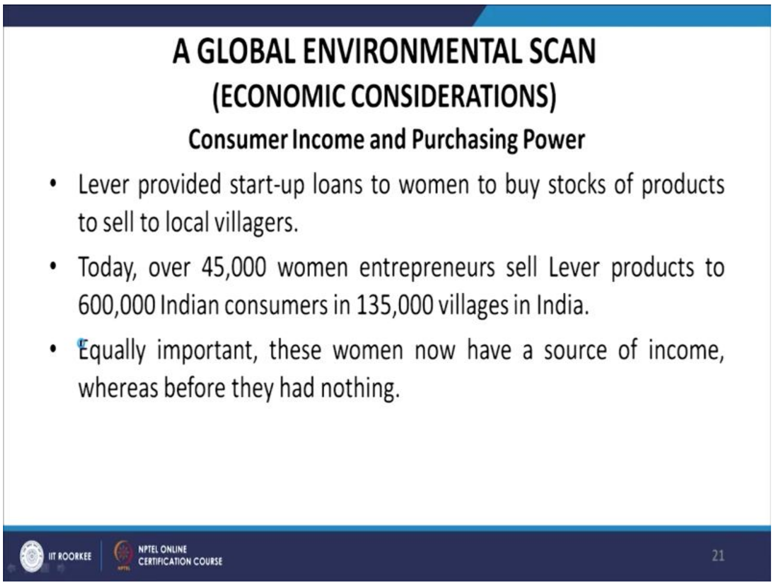

So, Lever provided startup loans to women to buy stocks of product to sell to local villagers. Today, over 45000 women entrepreneur sell Lever products to 600000 Indian consumers in 135000 villages in India. Equally important, these women now have a source of income where; whereas, before they had nothing.

So, Lever's; they provided loans to women and these women they bought the stock of Hindustan Unilever and then they sold to various consumer across the country and thereby they themselves earned money.

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So, income growth in developing countries of Asia, Latin America and Eastern Europe is expected to stimulate the world trade. By one estimate half, of the world population has now achieved middle class status. For this reasons, developing countries represents a prominent marketing opportunity for global companies.

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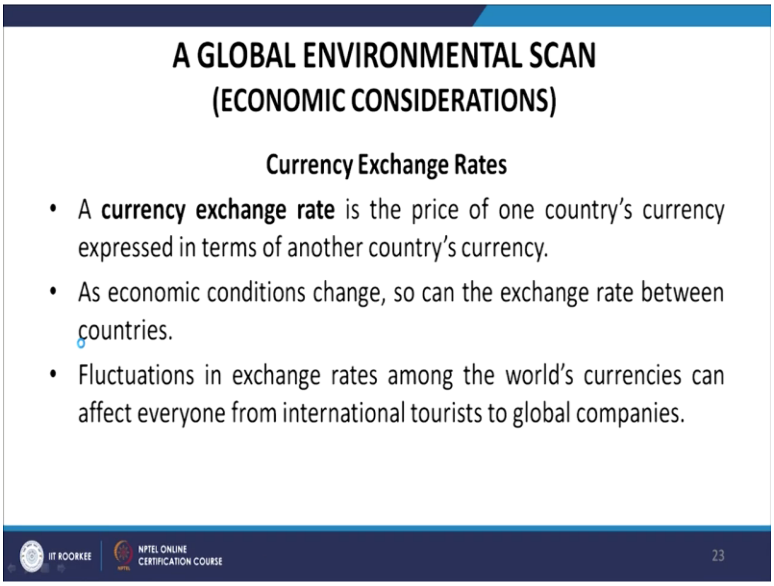

Next,; issue that we want to understand today is the currency exchange rates. A currency exchange rate is the price of one country's currency expressed in terms of another country's currency. As economic conditions change, so can the exchange rate between countries. Fluctuations in exchange rate among the world's currencies can affect everyone from international tourist to global companies.

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For example, when the US dollar is strong against the rupee, it takes lesser number of dollars to purchase goods in India. As a result; more US tourists will travel to India. This is great news for Indian travel; agents industry, but bad news for Indian consumers who want to buy US goods, as they will have to pay more for the same goods and they may choose not to buy.

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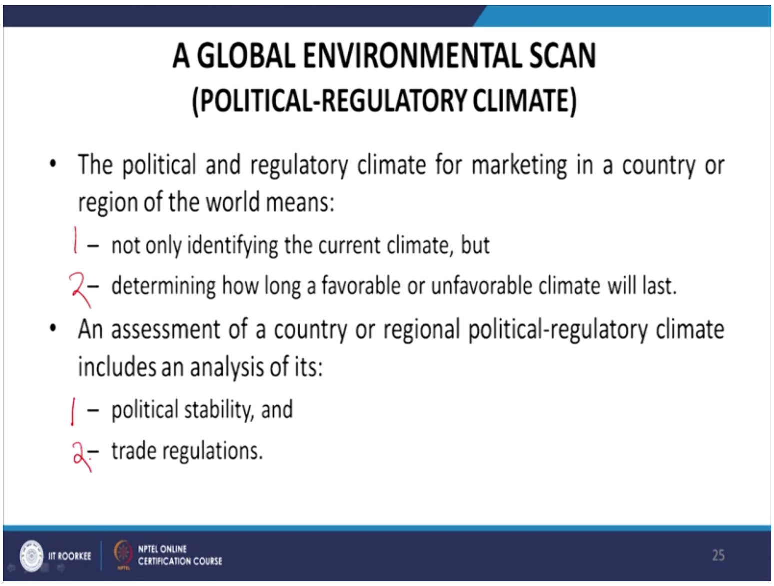

Now, let us look at the political regulatory climate; the political and regulatory climate of marketing in a country or region of the world means not only identifying the current climate, but also determining how long a favorable or unfavorable climate will last. An assessment of a country or regional political regulatory climate includes an analysis of its; political stability and trade regulations.

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Now, let us look at these two things; the first is the political stability, losses such as result of internal political strife, terrorism and war; encourage careful selection of politically stable countries and regions of the world for trade.

Political stability in a country is affected by numerous factors, such as government's orientation towards foreign companies and trade with other countries. These factors combine to create a political climate that is favorable or unfavorable for marketing and financial investments in a country or region of the world.

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Now, what are these trade regulations? Countries have rules that govern business practices within their borders. These rules often serve as trade barriers; for example, Japan has some 11000 trade regulations. Japanese car safety rules effectively require all automobile replacement parts to be Japanese and not American or European; public health rules make it illegal to sell aspirin or cold medicine without a pharmacist present.

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Now, let us look at how to go about comparing global market entry strategies. So, once a company has decided to enter the global marketplace, it must select a means for of entering those markets. And there are four options that exist; one is the first one is exporting, licensing, joint ventures and direct investments.

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Now, a firms profit potential and control over marketing activities increase as it moves from exporting to the direct investment as a global market entry strategy. But so does a firms financial commitment and thereby the risk. Firms often engage in exporting, licensing and joint ventures before pursuing a direct investment strategy.

So, now you see that in this figure 13.1; on one axis, we have the amount of the firm's financial commitment, risk and marketing control; higher, lower, least and this is the profit potential. These are the four different types of market entry strategies. Now, you see that here the amount of firms financial commitment, risk and marketing control is most in the fourth one; that is the direct investment, while it is the least in exporting.

Now, also look that in exporting; the profit potential is lower; in exporting the profit potential is lower, while in direct investment it is higher. So on the one hand, in direct investment; you have higher profit potential, but the firm's financial commitment, risk and the control over marketing are high.

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What is exporting? Exporting is producing goods in one country and selling them in another country. This entry option allows the company to make the least number of changes in terms of its product, its organization and even its corporate goals. So, you continue to do the same thing that you were doing in the home country. Host country is usually do not like this practice because it provides less local employment than other alternative means of entry.

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There is another type of exporting that is called as indirect exporting; indirect exporting is when a firm sells it domestically produced goods in a foreign country through an intermediary. It has the least amount of commitment and risk, but will probably return the least profits. Indirect exporting is ideal for a company that has no overseas contacts, but wants to market abroad.

The intermediary is often a distributor that has the marketing knowhow and resources necessary for the effort to succeed.

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So, another type of exporting; the first was indirect exporting, the second is the direct exporting. So, what happens in direct exporting; is when a firm sells its domestically produced goods in a foreign country without intermediary, in indirect exporting there is an intermediary, in direct exporting; there is no intermediary.

Most companies becomes involved in direct exporting when they believe their volume of sales will be sufficiently large and easy to obtain so that they do not require intermediary. For example, the exporter may be approached by foreign buyers that are willing to contract for a large volume of purchase.

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Direct exporting involves more risk for the company than indirect exporting, but also opens the door to increased profits. The Boeing Company; that is the world's largest aerospace company and the largest US exporter, applies a direct exporting approach. Even though exporting is commonly employed by large firms, it is the most prominent global market entry strategy among small and medium sized companies.

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Another type of marketing entry strategies licensing; under licensing, a company offers the right to a trademark, patent, trade secret or some similarly valued item of intellectual property in return for a royalty or a fee.

The advantages to the company granting the license are low risk and a capital free entry in a foreign country. The licensee gains information that allows it to start with the competitive advantage and the foreign country gains employment by having the product manufactured locally. However, there are some serious drawbacks of this mode of entry.

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The first drawback is the licensor forgoes control of its product and reduces the potential profits gained from it. The second limitation of licensing is; in addition while the relationship lasts, the licensor may be creating its own competition. The third is some licensees are able to modify the product somehow and enter the market with product and marketing knowledge gained at the expense of the company that got them started.

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Finally, should the licensee prove to be a poor choice, the name or reputation of the company may be harmed. Another, variation of licensing is franchising; franchising is one of the fastest growing market entry strategies. So, franchises include soft drinks, motel, retailing, fast food, and car rental operations and a variety of business services.

McDonald is a premier global franchiser; with some 18500 units outside the United States about 66 percent of McDonald's sales come from non US operations.

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When a foreign company and a local firm invest together to create a local business, then it becomes a joint venture. So, keep in mind that there is a foreign company and then there is a local firm and together they invest and now it is called a joint venture.

These two companies share the ownership, control and profits of the new company. The advantage of this option are twofold; first is one company may not have the necessary financial, physical, or managerial resources to enter a foreign market alone and the second advantages the government may require or strongly encourage a joint venture before it allows a foreign company to enter its markets.

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The disadvantages are; when the two companies disagree about policies or courses of action of their joint venture or when the government bureaucracy bogs down the efforts. For example, a US firm may want to return profits earned to the United States; while the local firm or its government may oppose this. A problem faced by many potential joint ventures in Eastern Europe, Russia, Latin America and South Asia.

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Now, the last of this market entry strategy is direct investment; that is the biggest commitment a company can make when entering the global market; so that is called as direct investments. It entails a domestic firm, actually investing in; and owning a foreign subsidiary or division.

For many companies direct investment often follows one of the other three market entry strategy. So, that means, the company is generally start with indirect exporting and then they go to exporting and then licensing, franchising, motel and then the third is joint ventures and then they come to this fourth that is the direct investment.

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Then there are several advantages of direct investment; for example, the first is the cost saving. Second is the better understanding of local market conditions and the third is lesser local restrictions.

Firms entering foreign markets using direct investment believe that these advantages outweigh the financial commitment and risk involved. So, some firms give more emphasis to these advantages rather than the disadvantages, while smaller firms; they thought them these are the disadvantages are more than the advantages of direct investments.

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Now, let us talk about crafting a worldwide marketing program. The choice of a market entry strategy is a necessary first step for a marketer when joining the community of global companies. The next step involves the challenging task of planning, implementing and evaluating marketing programs worldwide. Successful global marketers standardize global marketing programs, wherever possible and customize them wherever necessary.

So, now look for standardize; when it is possible, while customize when it is necessary. The extent of standardization and customization is often rooted in a careful global environmental scan supplemented with judgment based on experience and marketing research.

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Now, let us look at product and promotion strategies. So, global companies have five strategies for matching product and their promotional efforts to global markets. This figure; that is figure 13.2; it shows the strategies focus on whether a company extends or adapts its product and promotion message for consumers in different countries and culture.

Now, let us look at this figure; as you can see that on this axis, we have product emphasis where the emphasis is on the product. So, the product emphasis means that it can be the same product, it can be a adopted product; that is the changed product and then it, there can be a new product that the company comes up for a foreign market. On this axis, we have promotion emphasis; so when we are talking of promotion, then what to do? One is that you can adopt the promotion; another option is that you keep the same promotion.

Now, from these options there are five strategies that emerge. So, when the promotion is the same and product is also the same; then it is called as the product extension strategy. When the promotion is the same while the product is adopted; then it is called as product adaptation strategy. So, when the product is same, the strategy is product extension; when the product is adopted, the strategy is product adaptation strategy.

Now, let us come back to the lower line; the product is the same, but the communication is adapted; the promotion is adopted and this is called as communication adaptation strategy. Now, in this case; the product is the same while the promotion is adapted. Now, in this case; both the product and promotion; they are adopted and that is why it is now called as dual adaptation strategy.

Now, let us look at this third option; that is create new product, so; obviously, when you are creating a new product, then it goes without saying that you will also have a new promotion. So, here we are talking of creating a new product and also creating new promotion and now this is called as the product invention strategy.

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The product may be sold globally in one of the three ways; in the same form as its home market, that is the first way; the second way is with some adaptation or the third is as a totally new product.

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Now, let us look at the product extension strategy; selling virtually the same product in other countries is a product extension strategy. It works well for products such as Coca Cola, Gillette razors, Sony consumer electronics, Harley Davidson motorcycles, Nike apparels, and shoes and Apple iPhone.

As a general rule, product extension seems to work best when the consumer target market for the product; is alike across countries and cultures that are consumer share the same desires, needs and uses for the product.

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Another strategies product adaptation; changing a product in some way to make it more appropriate for a country's climate or consumer preferences is a product adaptation strategy.

Frito Lay produces and markets its potato chips in US, but do not expect them to taste like the chips eaten in India. Maybelline's makeup is adopted for local skin types and weathers across the globe including Asia specific mascara that does not run during the rainy season.

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Then, comes the product invention; alternatively companies can invent totally new product designed to satisfy common needs across countries. So, whirlpool developed compact, automatic clothes washer is specifically for households in developing countries. The washer features bright colors because washers are often placed in home living areas, not hidden in laundry rooms which do not exist in many homes in developing countries.

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The next is communication adaptation strategy; an identical promotion message is often used for the product extension and product adaptation strategy around the world. Gillette uses the same global message for its men's toiletries; Gillette, the Best a Man Can Get.

Global companies may also adapt their promotion message; for instance the same product may be sold in many countries, but advertised differently.

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As for example, L'Oreal; a French health and beauty product marketer recognizes the cultural and buying motive difference related to skin care and tanning.

Hence, its sun care range advertising features either of the dark tanning, skin protection to avoid wrinkles and beautiful skin for different customers from different parts of the world, even though the product are the same.

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Dual adaptation strategy; other companies use a dual adaptation strategy by modifying both their product and promotion messages. Nescafe is marketed using different coffee blends and promotional campaigns to match consumer preferences in different countries.

For example, Nescafe, the world largest brand of coffee; generally emphasize the taste, aroma and warmth of the shared moment in its advertising around the world. However, Nescafe is advertised in Thailand as a way to relax from pressures of daily life.

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Next thing that we will talk about today is the distribution strategy. Distribution is of critical importance in global marketing; the availability and quality of retailers and wholesalers as well as transportation, communication and warehousing facilities are often determined by a country's stage of economic development.

Figure 13.3, outlines the channel through which a product manufactured in one country must travel to reach it is destination in another country.

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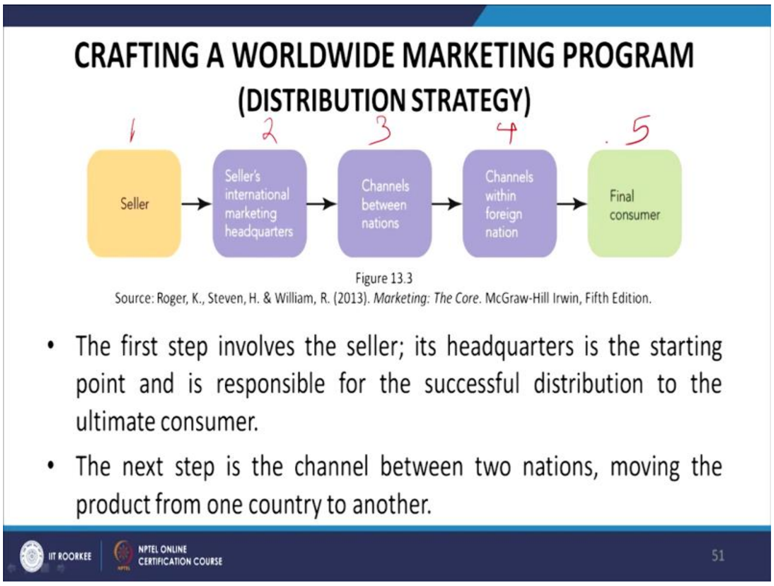

So, this is figure 13.3; now here, it is starts with the seller, it then goes to the sellers international marketing head quarters. Then, the product moves to the channel between the two nations, then it moves to the channels within the foreign nation and then ultimately that thing; the product reaches the final consumers.

So, the first step involves the seller; it’s headquarter is the starting point and is responsible for the successful distribution to the ultimate consumers. The next step is the channel between two nations, moving the product from one country to another.

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Intermediaries that can handle this responsibility include; resident buyers in a foreign country, independent merchants wholesalers who buy and sell products or agents who bring buyers and sellers together. So, these are the three type of intermediaries that may come and share and handle some of these responsibilities. Once the product is in the foreign nation, that country’s distribution channels; they take over. These channels can be very long or surprisingly short, depending on the product line.

The next important thing is pricing; so global companies also face many challenges in determining a pricing strategy as part of their worldwide marketing effort. Individual countries, even those with free trade agreements may impose considerable, competitive, political and legal constraints on the pricing latitude of global companies. Pricing too low or too high can have dire consequences.

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So, when pricing appears too low in one country, companies can be charged with dumping, a practice subject to severe penalties and fines. Dumping is when a firm sells a product in a foreign country below its domestic price or below its actual cost.

When companies price their product very high in some countries, but competitively in other, they face a gray market problem. A gray market also called parallel importing is a situation where products are sold through unauthorized channels of distribution.

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A gray market comes about when individual buy products in a lower priced country from a manufacturer's authorized retailer, ships them to higher priced countries and then sell them below the manufacturer's suggested retail price through unauthorized retailers. Many well-known products have been sold through gray markets, including Chanel perfumes and Mercedes Benz cars.

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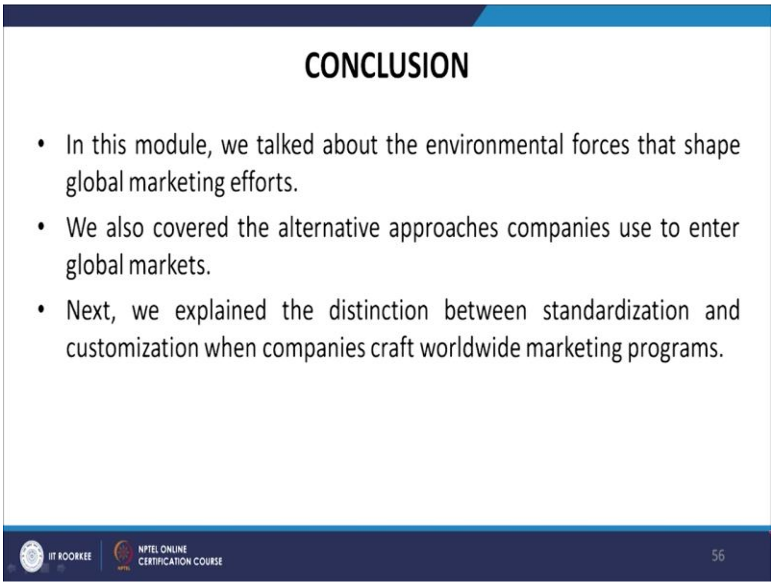

To conclude in this module, we have talked about the environmental forces that shape global marketing efforts. We have also covered the alternative approaches companies use to enter global markets. And then we have explained the distinction between standardization and customization, when companies craft worldwide marketing programs and these are the three books from which the material for this module was taken.

Thank you.