LOVELY PROFESSIONAL UNIVERSITY

INTERNATIONAL MARKETING

Edited By

Ashwani Panesar

Printed by
EXCEL BOOKS PRIVATE LIMITED
A-45, Naraina, Phase-I,
New Delhi-110028
for
Lovely Professional University
Phagwara

SYLLABUS

International Marketing

Objectives:

- On completion of this course students should be able to critically analyze the international marketing environment in terms of markets structures and size, legal frameworks, political structures, financial markets etc for managing products and services, and other marketing mix factors.
- On completion of this course students should understand how to combat international competitiveness of firms by way of effective adaptation of marketing mix elements.

S.No.	Description
1.	The Concept of International Marketing, Emerging Opportunities in International Markets, WTO
2.	Decision-making Process for International Markets: Identification of International Markets, Segmentation of International Markets, Selection and Tools for International Market Analysis.
3.	The Political Environment of International Market, The International Legal Environment, International Market Research
4.	Product Strategy for International Markets: Standardization vs. Adaptation, Factors Influencing Product Adaptation in International Markets.
5.	Trade off Strategy, IPLC, Product Strategy
6.	Pricing Decisions for International Markets: Pricing Decisions, Pricing Approaches, Factors Influencing Pricing Decisions, Terms of Payment, Type of Payment, Terms of Delivery: Dumping, Counter Trade, Transfer Pricing, Grey Marketing
7.	International Logistics and Distribution: Types of International Distribution Channels, International Logistics, Value Chain Concept
8.	Communication Decisions for International Markets
9.	Export Procedure and Documentation
10.	Negotiating with Intentional Customers, Partners, and Regulators, Global E-marketing

CONTENT

Unit 1:	Basics of International Marketing *Navneet Kaur, Lovely Professional University*	1
Unit 2:	World Trade Organization *Ashwani Panesar, Lovely Professional University*	18
Unit 3:	Political Environment of International Marketing *Ginni Nijhawan, Lovely Professional University*	48
Unit 4:	International Legal Environment *Ashwani Panesar, Lovely Professional University*	72
Unit 5:	International Market Research *Hitesh Jhanji, Lovely Professional University*	90
Unit 6:	Negotiation and Decision Making *Ashwani Panesar, Lovely Professional University*	110
Unit 7:	Product Strategy for International Markets *Neha Khosla, Lovely Professional University*	124
Unit 8;	Pricing Decisions for International Markets *Hitesh Jhanji, Lovely Professional University*	139
Unit 9:	Terms of Payment and Delivery *Ashwani Panesar, Lovely Professional University*	156
Unit 10:	International Logistics and Distribution Channels *Ginni Nijhawan, Lovely Professional University*	171
Unit 11:	Communication Decision for International Markets *Ashwani Panesar, Lovely Professional University*	189
Unit 12:	Export Procedures and Policies *Navneet Kaur, Lovely Professional University*	203
Unit 13:	Export Documentation *Ashwani Panesar, Lovely Professional University*	222
Unit 14:	Global E-Marketing and EDI *Neha Khosla, Lovely Professional University*	238

Notes

Unit 1: Basics of International Marketing

CONTENTS

Objectives

Introduction

1.1 Concept of International Marketing

1.1.1 Environmental and Cultural Dynamics of Global Markets

1.1.2 Main Functions in International Marketing

1.2 International Marketing vs. Domestic Marketing

1.3 Principles of International Marketing

1.3.1 Customer Value and the Value Equation

1.3.2 Competitive or Differential Advantage

1.3.3 Focus

1.4 Management Orientations

1.4.1 Ethnocentric

1.4.2 Polycentric

1.4.3 Regiocentric and Geocentric Orientations

1.5 Benefits of International Marketing

1.6 Emerging Opportunities in International Marketing

1.6.1 Multinational Corporations

1.6.2 Transnational Corporations

1.7 Summary

1.8 Keywords

1.9 Review Questions

1.10 Further Readings

Objectives

After studying this unit, you will be able to:

- Describe the concept of International Marketing
- Explain the difference between International and Domestic Marketing
- Discuss the principles of International Marketing
- Elaborate the concept of Management orientation
- Explain the benefits of International Marketing
- Focus on emerging opportunities of International Markets

Notes

Introduction

International marketing refers to marketing carried out by companies overseas or across national borders. This strategy uses an extension of the techniques used in the home country of a firm.

International marketing is simply the application of marketing principles to more than one country. However, there is a crossover between what is commonly expressed as international marketing and global marketing, which are similar terms.

The intersection is the result of the process of internationalisation. Many American and European authors see international marketing as a simple extension of exporting, whereby the marketing mix 4Ps is simply adapted in some way to take into account differences in consumers and segments. It, then, follows that global marketing takes a more standardised approach to world markets and focuses upon sameness, in other words the similarities in consumers and segments.

According to American Marketing Association (AMA), international marketing is the multinational process of planning and executing the conception, pricing, promotion, and distribution of ideal goods and services to create exchanges that satisfy individual and organisational objectives.

In this unit and subsequent units, you will learn various aspects of international marketing. You must note that in the definition, the word multinational has been added to the definition of marketing given by other experts. That word implies that marketing activities are undertaken in several countries and such activities should somehow be coordinated across nations.

1.1 Concept of International Marketing

When a business crosses the borders of a nation, it becomes complex.

International marketing involves all the activities that form part of domestic marketing. An enterprise engaged in international marketing has to correctly identify, assess and interpret the needs of the overseas customers and carry out integrated marketing operations to satisfy those needs. In other words, the basic functions are the same in international marketing as well as in domestic marketing.

At the same time, there are several characteristics that are unique to international marketing. When the business crosses the national borders of a given country, it becomes enormously more complex. The resulting problems and management situations transcend those of marketing, finance and production. A wide range of legal, political, cultural and sociological dimensions enter the picture, adding a lot of complexity to the task. And, the one factor that contributes maximum to the complexity is the environmental and cultural dynamics of the global markets.

1.1.1 Environmental and Cultural Dynamics of Global Markets

The environmental and cultural dynamics of the markets of different countries can be understood only by studying the respective people, their patterns of life, their tradition, their social interactions, their sensibilities, their faiths and fancies. In other words, the international marketer has to become a native in the foreign land. He has to communicate with the people of those lands in their lingo and idiom.

Multinational enterprise must function in a world of contrasts: old and new, primitive and modern, pious, and agnostic, unutterably beautiful and sickeningly squalid, educated and ignorant, progressive and stagnant, sophisticated and naive all in constant agitation. To interpret this volatile diversity, to make sense of this apparent chaos, we must try to identify the underlying forces the prime movers which produce the global dynamics.

Notes

Notes It is obvious that the difference between domestic and international marketing is essentially environmental and cultural in character. And cultural diversity continues despite the world getting closer.

Modern communication and transport systems have no doubt brought the nations of the world closer, but the cultural differences continue. So, understanding the cultural variances and nuances, and responding to them in a manner and style that is appealing to the foreign buyer becomes the crucial task. It is not enough if the international marketer communicates in the buyer's language. Language is only one aspect of culture. A national history, its social and religious heritage, the value system of its people, the code of conduct handed down through generations all these are components of a national culture. Moreover culture is not a static entity. It undergoes a continuous evolution. So, sizing up the cultural dynamics of the different markets of the world is quite a difficult exercise. And that explains the difficulty of international marketing.

1.1.2 Main Functions in International Marketing

Let us briefly touch upon the main functions involved in International marketing. They are:

- Choosing the basic route for global marketing
- Market selection and product selection
- Selection of distribution channels
- Developing pricing strategy
- International marketing communication
- Mastering the procedural complexities
- Organizational adaptations
- Handling business ethics

Choosing the Basic Route

A properly conceived entry strategy is the starting point. There are five basic routes to enter a foreign market:

- Exports
- Licensing of technology and know how
- Multinational trading
- Joint venture
- Full-fledged global operation

We shall mention the salient features of each of these routes.

Export is the primary route for entry into the global markets. Many firms stop with this step in their international marketing endeavour. Some firms, however, go beyond; they license their technology and know how to foreign firms who may be interested in importing it into their land. In multinational trading, the companies source products from any part of the world and cart it to any place where demand for the product exists. Setting up joint ventures in foreign countries is another effective strategy for gaining entry into world markets. Through the joint ventures, the firm literally gets close to the foreign markets. Through joint ventures, a firm becomes a native in foreign lands and that is the surest way to the birth of a full-fledged MNCS.

Notes

Did u know? In modern days, the joint venture strategy is taking firmer roots among companies planning massive global marketing. Becoming full-fledged global operators or MNCs with manufacturing and marketing set up across countries is the most difficult but also rewarding of all strategies of International Marketing.

Self Assessment

Fill in the blanks:

1. ..... is the primary route for entry into the global markets.
2. Many firms stop with this step in their ..... marketing endeavour.
3. It is obvious that the difference between ..... and international marketing is essentially environmental and cultural in character.
4. The international marketer has to become a native in the ..... land. He has to communicate with the people of those lands in their lingo and idiom.
5. International marketing involves all the ..... that form part of domestic marketing.

Caselet

Carpet Industry in India

In this era of globalisation, every company and every industry wants to go global. India also wants to sell carpets to the foreign markets. This can only be done through exports when the profits in the exports increase we go in for International Marketing, which lead to international trade and international business. How does it happen? This happens only when our company becomes international, multinational and Transnational.

The carpet industry at present is passing through international marketing stage.

The carpets that are exported follow the concept of Ethnocentricity. In order to make the carpet industry an MNC the export of carpets have to increase to more than $ 100 million turn over per annum. This can only happen in case this industry is properly organized and given more incentives by the Government being a labour intensive industry.

The question of its becoming Transnational cannot arise unless this industry falls in the hands of MNC itself and a large number of carpet weavers are trained on a large scale through Carpet Management Schools which is a far of dream. However, effort should be made to give more incentives to the carpet weavers so that the child labour in this industry is completely abolished and the objection of the importers on the use of child labour is removed.

Source: PK Vasudeva, *International Marketing*, 3rd Edition, Excel Books.

1.2 International Marketing vs. Domestic Marketing

The striking difference between international and domestic marketing lies in the environment in which these two take place. The important points of differences between international and domestic marketing are:

1. ***Sovereign Political Entities:*** Each country is a sovereign political entity and, therefore, they for importing and exporting the goods and services in order to safeguard their

Notes

national interest impose several restrictions. The traders in international marketing have to observe such restrictions. These restrictions may fall in any of the following categories:

(i) Tariffs and customs duties on import and export of goods and services in order to make them costly in the importing country and not to ban their entry into the country completely. In the post war period, the efforts of General Agreement on Tariffs and Trade (GATT) there has been a significant reduction in tariff globally and on regional basis due to the emergence of regional economic groupings.

(ii) Quantitative restrictions are also imposed with an intention to restrict trade in some specific commodities. The major objective behind the restriction is the protection of home industries from the competition of the foreign commodities.

(iii) Exchange control is another restriction imposed by almost every sovereign state. The Government, in some cases, does not ban the entry of goods in the country but the importer is not allowed the necessary foreign exchange to make the payment for the goods imported. But, in some cases, exchange control and quantitative controls are put together along with the grant of import licence.

(iv) Imposition of more local taxes on imported goods with an object to make the imported goods costly is one of the restrictions in international marketing.

2. ***Different Legal Systems:*** Different countries operate different legal systems and they all differ from each other. Most of the countries follow English Common Law as modified from time to time. Japan and Latin American countries are important exceptions to this rule. The existence of different legal systems makes the task of businessmen more difficult as they are not sure about the particular system will apply to their transactions. This difficulty does not arise in the domestic trade, as the laws are same for the whole country.

3. ***Different Monetary Systems:*** Each country has its own monetary system and the exchange rates for each country's currency are fixed under the rules framed by the International Monetary Fund and, therefore, they are more or less fixed. However, in recent years the exchange rates are fluctuating and are being determined by demand and supply forces. Some countries operate multiple rates; i.e. different rates are applicable to different transactions.

4. ***Lower Mobility Factors of Production:*** Mobility of different factors of production is less as between nations than in the country, itself. However, with the advent of air transport, the mobility of labour has increased manifold. Similarly, the development of international banking has increased the mobility of capital and labour. In spite of these developments, the mobility of labour and capital is not as much as it is within the country itself.

5. ***Differences in Market Characteristics:*** Market characteristics in each segment are different, i.e. demand pattern, channels of distribution, methods of promotion, etc. are quite different from market to market. If we take each country a separate market, we can assume different market characteristics there. These differences are accentuated due to the existence of government controls and regulations. However, this is a difference of degree only. Even in one single country.

Example: India and America these differences in market patterns may be found from state to state.

6. ***Differences in Procedure and Documentation:*** The centuries old laws and customs of trade in each country demand different procedures and documentary requirements for the import and export of the goods and services. The traders residing in the territory have to comply with these regulations and customs if they want import and export of goods and services.

Notes

Self Assessment

State whether the following statements are true or false:

6. The main objective of imposing quantitative restrictions on imports is to increase the demand for home made items.
7. The mobility of labour and capital in the international market is smoother than in the domestic market.

Task Trace the journey of Unilever and P&G, right from their inception till date covering how they became global giants and what major marketing initiatives they took that helped them to be major players in India.

1.3 Principles of International Marketing

The essence of international marketing can be summarized in three great principles. The first identifies the purpose and task of marketing; the second refer to the competitive reality of marketing and the third the principle means for achieving the first two.

1.3.1 Customer Value and the Value Equation

The task of marketing is to create customer value that is greater than the value created by competitors. The value equation is a guide to this task. As suggested in the equation, value for the customer can be increased by expanding or improving product and/or service benefits, by reducing the price, or by a combination of these elements. Companies with a cost advantage can use price as a competitive weapon. Knowledge of the customer combined with innovation and creativity can lead to a total offering that offers superior customer value. If the benefits are strong enough and valued enough by customers, a company does not need to be the low-price competitor to win customers.

1.3.2 Competitive or Differential Advantage

The second great principle of international marketing is competitive advantage. A competitive advantage is a total offer, vis-à-vis relevant competition that is more attractive to customers. The advantage can exist in any element of the company's offer: the product, the price, the advertising and point-of-sale promotion, or the distribution of the product. One of the most powerful strategies for penetrating a new national market is to offer a superior product at a lower price. The price advantage will get immediate customer attention, and, for those customers who purchase the product, the superior quality will make an impression.

$$V = B/P$$

Where,

V = Value

B = perceived benefits – perceived costs

Example: switching costs

P = price

Notes

1.3.3 Focus

The third international marketing principle is focus, or the concentration of attention. Focus is required to succeed in the task of creating customer value at a competitive advantage. All great enterprises whether large or small, are successful because they have understood and applied this great principle. IBM succeeded and became a great company because it was more clearly focused on customer's needs and wants than any other company in the emerging data-processing industry.

One of the reasons IBM found itself in crisis in the early 1990s was that its competitors had become much more clearly focused on customer needs and wants.

Example: Dell and Compaq, focused on giving customers computing power at low prices. IBM was offering the same computing power at higher prices.

A clear focus on customer needs and wants and on the competitive offer is required to mobilize the effort needed to maintain a differential advantage. This can be accomplished only by focusing or concentrating resources and efforts on customer needs and wants and on how to deliver a product that will meet those needs and wants.

Notes One way to understand the concept of international marketing is to examine how international marketing differs from such similar concepts as domestic marketing, foreign marketing, comparative marketing, international trade and multinational marketing.

Domestic Marketing is concerned with marketing practices within researchers or marketers' home country.

Foreign Marketing encompasses the domestic operations within the foreign country. A US company considers marketing in United States as domestic marketing and marketing in Great Britain as foreign marketing.

Comparative Marketing is the one when its purpose is to contrast two or more marketing systems rather than examine a particular country's marketing system for its own sake.

International Trade is concerned with the flow of goods and services across national borders. The focus of the analysis is on commercial and monetary conditions that affect balance of payment and resource transfer.

International Marketing on the other hand, is more concerned with micro level of market and uses the company as a unit of analysis.

Box 1.1: Indian Examples of Global Marketing

Indian corporations are going global. The recent acquisition of Corus by Tata has signalled that some of them are looking beyond the national market and seeing their future as multi-nationals, competing for space in the global economy with the present occupants. The Tata-Corus deal is the biggest one so far. But a lot has been happening since the finance minister loosened controls on overseas investments by Indian companies in 2003. The volume of overseas acquisitions by Indian companies has grown from around $2 billion in 2004 to $4.5 billion in 2005 and may reach over $10 billion in 2006. Videocon, Bharat Forge, Ranbaxy and other pharma companies, the IT majors and, of course, ONGC are some of the others who have been active.

Source: Business Standard.

Notes

Multinational (Global or World) Marketing is the preferred term for some of the authors since nothing is foreign or domestic about the world market and global opportunities. One might question whether the subtle difference between the international marketing and multinational marketing is significant. For practical purposes, it is merely a distinction without a difference. As a matter of fact, multinational firms themselves do not make any distinction between the two terms. It is difficult to believe that International Business Machines will become more global if it changes to corporate name to Multinational Business Machines. Likewise, there is no compelling reason for American Express and British Petroleum to change their name to say global express and Multinational Petroleum. For purposes of discussion, international, global and multinational marketing is interchangeable.

Self Assessment

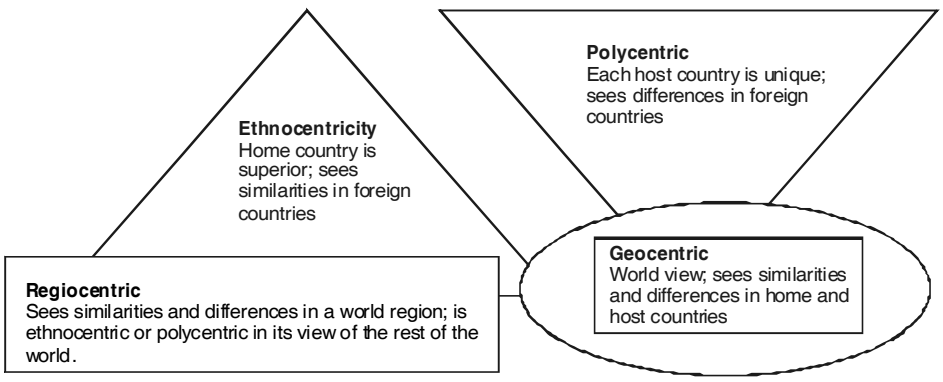
State whether the following statements are true or false:

8. A clear focus on its profit goals and sales maximisation can give the company a distinct advantage.
9. International marketing and multinational marketing are very similar to each other.

1.4 Management Orientations

The form and substance of a company's response to global business opportunities depend greatly on management's assumptions or beliefs – both conscious and unconscious – about the nature of the world. The worldview of a company's personnel can be described as ethnocentric, polycentric, regiocentric and geocentric. Management at a company with a prevailing ethnocentric orientation may consciously make a decision to move in the direction of geocentricism. The orientations-collectively known as the EPRG framework – are summarised in Figure 1.1

Figure 1.1: Orientations of Management and Companies



1.4.1 Ethnocentric

A person who assumes his or her home country is superior compared to the rest of the world is said to have an ethnocentric orientation. The ethnocentric orientation means company personnel see only similarities in markets and assume the products and practices that succeed in the home country will, due to their demonstrated superiority, be successful anywhere. At some companies, the ethnocentric orientation means the opportunities outside the home country are ignored. Such companies are, sometimes, called domestic companies. Ethnocentric companies that do

Notes

conduct business outside the home country can be described as international companies; they adhere to the notion that the products that succeed in the home country are superior and, therefore, can be sold everywhere without adaptation.

Did u know? In the ethnocentric, international company, foreign operations are viewed as being secondary or subordinate to domestic ones.

An ethnocentric company operates under the assumption that "tried and true" headquarters knowledge and organisational capabilities can be applied in other parts of the world. Although this can sometimes work to a company's advantage.

Nissan's ethnocentric orientation was quite apparent during its first few years of exporting cars and trucks to the United States. Designed for mild Japanese winters, the vehicles were difficult to start in many parts of the United States during the cold winter months.

1.4.2 Polycentric

The polycentric orientation is the opposite of ethnocentrism. The term polycentric describes management's often-unconscious belief or assumption that each country in which a company does business is unique. This assumption lays the groundwork for each subsidiary to develop its own unique business and marketing strategies in order to succeed; the term multinational company is often used to describe such a structure. Until recently, Citicorp's executive, offered this description of the company: "We were like a medieval state. There was the kind and his court and they were in charge, right? No. It was the land barons who were in charge. The kind and his court might declare this or that, but the land barons went and did their thing." Realizing that the financial services industry is global sing; CEO John Reed is attempting to achieve a higher degree of integration between Citicorp's operating units. Like Jack Welch at GE, Reed is moving to instill a geocentric orientation throughout his company.

1.4.3 Regiocentric and Geocentric Orientations

In a company with a regiocentric orientation, management views regions as unique and seeks to develop an integrated regional strategy.

Example: A U.S. company that focuses on the countries included in the North American Free Trade Agreement (NAFTA) – the United States, Canada, and Mexico – has a regiocentric orientation. Similarly, a European company that discusses its attention on Europe is regiocentric. A company with a geocentric orientation views the entire world as a potential market and strives to develop integrated world market strategies. A company whose management has a regiocentric or geocentric orientation is, sometimes, known as a global or transnational company.

The geocentric orientation represents a synthesis of ethnocentrism and polycentrism; it is a "worldview" that sees similarities and differences in markets and countries, and seeks to create a global strategy that is fully responsive to local needs and wants. A regiocentric manager might be said to have a worldview on a regional scale; the world outside the region of interest will be viewed with an ethnocentric or a polycentric orientation, or a combination of the two.

The ethnocentric company is centralized in its marketing management, the polycentric company is decentralized, and the regiocentric and geocentric companies are integrated on a regional and global scale, respectively. A crucial difference between the orientations is the underlying assumption for each. The ethnocentric orientation is based on a belief in home-country superiority.

Notes

Caution The underlying assumption of the polycentric approach is that there are so many differences in cultural, economic, and marketing conditions in the world that it is impossible and futile to attempt to transfer experience across national boundaries.

There is likelihood that geocentric company does not identify itself with any particular country. Therefore, it is difficult to determine the firm's home country except the location of its headquarter and its corporate registration.

Self Assessment

Fill in the blanks:

10. As per……approach, every country has a unique business environment and therefore should be dealt with differently.
11. European Union is based on ……..orientation.
12. Ethnocentric companies are……..in their business approaches.

1.5 Benefits of International Marketing

The importance of international marketing is neither understood nor appreciated by the consumers though they are carrying out international marketing daily. The Government officials especially the bureaucrats seem always to point a negative aspect of international business. Many of their charges on international marketing are imaginary than real. Hence, it is essential that the benefits of international marketing be explicitly discussed.

These benefits are:

- ***Endurance:*** Every country is not that fortunate as USA in terms of infrastructure, size, resources and opportunities. Hence, they must trade with other countries to survive. Similarly, every country is not fortunate as India, which has abundant natural resources and treasure of biodiversity that it can survive within its resources even if there is a resource crunch. Even then it has to carry out trading with other countries to get oil and armaments for its own survival. Hongkong cannot survive without food and water from China. The countries of Europe have had similar experience since most of the European nations are relatively small in size. Without foreign market, European firms would not have sufficient economies of scale to allow them to be competitive with US firms.
- ***Progress of overseas markets:*** Developing countries, inspite of poor economy having serious marketing problems are excellent markets. The US has found that India is the biggest market in the world for consumer and engineering products. According to a report prepared by US Congress by the US Trade Representative, Latin America and Asia are experiencing the worst economic recession though they have the potential in the world market. American market cannot ignore the vast potential of international market. The world market is four times larger than US market. In the case of Amway Corp., a privately held US manufacturer of cosmetics, soaps, and vitamins, Japan represents a larger market than the US.
- ***Sales promotion:*** Foreign markets constitute a large share of total business of many firms that have cultivated market abroad. Many large US companies have done very well because of their overseas customers. IBM and Compaq sell more computers abroad than at home. The case of Coca-Cola clearly emphasizes the importance of overseas markets. Coca-cola

Notes

is coming up with milk based products as majority of the Indians and Asians do not relish the taste of aerated drinks which are supposed to be having caffeine and is addictive.

- ***Diversification:*** In the international market cyclical factors as recession and such seasonal factors as climate affect the demand for most of the product. Due to these variables there are sales fluctuations, which frequently is substantial enough to cause, lay off of personnel. One way of diversifying a company's risk is to consider foreign markets as a solution for variable demands.
- ***Inflation and wholesale price index:*** The best way to control inflation is to earn foreign exchange through exports. Imports can also be highly beneficial to a country because they constitute reserve capacity of the local economy. Without imports, there is no incentive for domestic firms to moderate their prices. The lack of imported product alternatives forces consumers to pay more, resulting in inflation and excessive profits for local firms. This development usually acts as a prelude to workers to demand higher wages, further exacerbating the problem of inflation. Import quotas imposed on Japanese automobiles in 1980s saved 46,200 US production jobs but at a cost of $ 160 thousand per job per year.
- ***Employment and placements:*** Tariff barriers and trade restrictions in certain countries contributed significantly to the great depression of 1930 and have the potential to cause widespread unemployment again. Unrestricted trade on the other hand, improves the world's GNP and enhances employment generally for all nations. With the liberalization of economic policy 1991, India has gained tremendously with the inflow of foreign direct investment as a result of which the employment in the country has tremendously improved.
- ***Standard of living/style:*** Trade affords countries and their citizen's higher standard of living than otherwise possible. Without trade, product shortages force people to pay more for less. Products taken for granted such as coffee and bananas may become unavailable overnight. Life in most of the countries will be more difficult were it not being for the many strategic metals that must be imported. Trade also makes it easier for industries to specialize and gain access to raw materials, while at the same time fostering competition and efficiency.
- ***Marketing process:*** International marketing should be considered a special case of domestic marketing. It has earlier been explained that there is very little difference between domestic and international marketing. Only thing is that the word multinational has been added in the international marketing process. Otherwise, the marketing mix is the same for both. With the improvement in information technology the access to international market has become easy as the whole world has become a small global village.

Task Prepare a comparative analysis on – Ethnocentrism vs. Polycentrism. Give few examples to bring out the comparison.

Self Assessment

Fill in the blanks:

13. For USA …….. is the biggest market in the world for consumer and engineering products.
14. According to experts, the best way to control inflation is to earn …… through exports.

Notes

1.6 Emerging Opportunities in International Marketing

Opportunities are becoming more and more global in an increasing number of industries and markets. With the progressive liberalization of economic policies in many countries, firms encounter growing competition not only in markets but in domestic markets as well.

1.6.1 Multinational Corporations

Multinational Corporations (MNCs) are major players in the world of international business. In India, the mention of an MNC usually elicits mixed reaction among the Indians. On one hand, MNCs are associated with exploitation and ruthlessness. They are often criticised for moving resources in and out of the country as they strive for profit without much regard for the country's social welfare.

Example: Varity Corporation, an MNC of Canada was criticised for its action in 1991 to relocate its headquarter from Toronto to United States (Buffalo) in order to take advantage of the US – Canadian Trade Agreement. For a long time, India referred to MNCs as "agents of neo-colonialism". It was not until 1991 that India began to woo MNCs. Yet several years later, MNCs are still not welcome to India. To many Indians, such MNCs as Pepsi, Coca-Cola, Kentucky Food Corporation (KFC) and Enron Corporation are all "foreign devils".

- In defence of MNCs more and more of them have been trying to be responsible members of the society.

Example: Pepsi and Coke are contributing a lot for the development of sports especially cricket in India.

- On the other hand, MNCs have power and prestige; additionally, they create social benefit for facilitating economic balance. As explained by Miller, "with resources, capital, food, and technology unevenly distributed around the planet and all in short supply, an efficient instrument of quick and effective production and distribution of a complex of goods and services is the first essential." This instrument is the MNC.
- Regardless of whether MNCs are viewed positively or negatively, they are here to stay and the important point is to understand when a company becomes a member of this elite group. MNC is not a one-dimensional concept. Similarly, globalisation does not have a single definition. There is no single criterion that proves satisfactory at all times in identifying an MNC; whether a company is identified as MNC or not depends on a number of criteria used.

1.6.2 Transnational Corporations

The largest national market in the world, the United States, today represents roughly 25 percent of the total world market for all products and services. Thus, U.S. companies wishing to achieve maximum growth potential must "go global" because 75 percent of world market potential is outside their home country. Coca-cola is one American-based company that understands this; 82 percent of its 1995 operating income and 71 percent of revenues were generated by its soft-drink business outside the United States. Non-U.S. companies have an even greater motivation to seek market opportunities beyond their own borders; their opportunities include the 260 million people in the United States.

Notes

Example: Even though the dollar value of the home market for Japanese companies is the second largest in the free world (after the United States), the market outside Japan is 85 percent of the world potential for Japanese companies.

For European countries, the picture is even more dramatic. Even though Germany is the largest single-country market in Europe, 94 percent of the world market potential for German companies is outside of Germany.

Many companies have recognized the importance of conducting business activities outside, the home country. Industries that were strictly national in scope only a few years ago are dominated today by a handful of global companies. The rise of the global corporation closely parallels the rise of the national corporation, which emerged from the local and regional corporation in the 1880s and the 1890s in the first quarter of the 20th century, there were thousands of auto companies in the world, and more than 500 in the United States alone. Today, fewer than 20 companies remain worldwide, and only 2 of them are American. In most industries, the companies that will survive and prosper in the next country will be global enterprises. Some companies that do not respond to the challenges and opportunities of globalisation will be absorbed by more dynamic enterprises; others will simply disappear.

Self Assessment

Fill in the blanks:

15. The companies that sell products in the global market without making any adaptations to their home made product are called……..
16. Samsung Electronics is a MNCs with its base in……..
17. …… marketing and multinational marketing are very similar to each other, in fact almost the same thing.

Case Study

Molex makes Global HR

Molex, a 70-year-old manufacturer of electronic components based in Chicago, is the world's second largest manufacturer of electronic components. The company established an international division to coordinate exporting in 1967, opened its first overseas plant in Japan in 1970 and a second in Ireland in 1971. From that base, Molex has evolved into a global business that generated about 61 percent of it's $·1.84 billion in revenues outside of the United States. The company operates some 50 manufacturing plants in 21 countries and employs more than 16,000 people worldwide, only one-third of who are located in the United States. Molex's competitive advantage is based on a strategy that emphasizes a combination of low costs, excellent customer service, and mass production of standardized products that are sold globally. Manufacturing sites are located in countries where cost conditions are favourable and major customers are close. Since the 1970s, a key goal of Molex has been to build a truly global company that is at home wherever in the world it operates and that proactively shares valuable knowledge across operations in different countries. The human resources function of Molex has always played a central role in meeting this goal.

Contd...

Notes

As Molex grew rapidly overseas, the Human Resource Management (HRM) function made sure that every new unit did the same basic things. Each new entity had to have an employee manual with policies and practices in writing, new employee orientation programs, salary administration with a consistent grading system, written job descriptions, written promotion and grievance procedures, standard performance appraisal systems that were written, and so on. Beyond these things, however, Molex views HRM as the most localized of functions. Different legal systems, particularly with regard to employment law, different compensation norms, different cultural attitudes to work, different norms regarding vacation, and so on – all imply that policies and programs must be customized to the conditions prevailing in a country. To make sure this occurs, Molex's policy is to hire experienced HRM professionals from other companies in the same country in which it has operations. The idea is to hire people who know the language, have credibility, know the law, and know how to recruit in that country.

Molex's strategy for building a global company starts with its staffing policy for managers and engineers. The company frequently hires foreign nationals who are living in the United States, have just completed MBAs and are willing to relocate if required. These individuals will typically work in the United States for a while, becoming familiar with the company's culture. Some of them will then be sent to their home country to work there. Molex also carefully screens its American applicants, favouring those who are fluent in at least one other language. Molex is unusual for a U.S. company in this regard. However, with more than 15 languages spoken at its headquarters by native speakers, Molex is committed to multilingual competency. There is also significant hiring of managers and engineers at the local level.

Here, too, a willingness to relocate internationally and foreign language competency are important, although this time English is the preferred foreign language. In a sign of how multinational Molex's management has become, it is not unusual to see foreign nationals holding senior positions at company headquarters. In addition to Americans, individuals of Greek, German, Austrian, Japanese, and British origin have all sat on the company's executive committee, its top decision-making body.

To help build a global company, Molex moves people around the world to give them experience in other countries and to help them learn from each other. It has five categories of expatriates: (1) regular expatriates who live in a country other than their home country for three-to-five-year assignments (there are approximately 50 of these at anyone time), (2) "inpats" who come to the company's U.S. headquarters from other countries, (3) third-country nationals who move from one Molex entity to another (for example, Singapore to Taiwan), (4) short-term transfers who go to another Molex entity for 6 to 9 months to work on a specific project, and (5) medium terms who go to another entity for 12 to 24 months, again to work on a specific project.

A high level of intracompany movement is costly. For an employee making $75,000 in base salary, the total cost of an expatriate assignment can run as high as $250,000 when additional employee benefits are added, such as the provision of schooling and housing, adjustments for higher costs of living, adjustments for higher tax rates, and so on. Molex also insists on treating all expatriates the same, whatever their country of origin, so a Singapore expatriate living in Taiwan is likely to be living in the same apartment building and sending his child to the same school as an American expatriate in Taiwan. This boosts the overall costs, but Molex believes that its extensive use of expatriates pays back dividends. It allows individuals to understand the challenges of doing business in-different countries, it facilitates the sharing of useful knowledge across different business entities,

Contd...

Notes

and it helps to lay the foundation for a common company culture that is global in its outlook.

Molex also makes sure that expatriates know why they are being sent to a foreign country, both in terms of their own career development and Molex's corporate goals. To prevent expatriates from becoming disconnected from their home office, the HRM department touches base with them on a regular basis through telephone, e-mail and direct visits. The company also encourages expatriates to make home office visits so that they do not become totally disconnected from their base and feel like a stranger when they return. Upon return, they are debriefed and their knowledge gained abroad is put to use by, for example, placing the expatriates on special task forces.

A final component of Molex's strategy for building a cadre of globally minded managers is the company's in-house management development programs. These are open to a wide range of managers who have worked at Molex for three years or more. Molex uses these programs not just to educate its managers in finance, operations, strategy, and the like, but also to bring together managers from different countries to build a network of individuals who know each other and can work together in a cooperative fashion to solve business problems that transcend borders.

Questions

1. What multinational strategy is Molex pursuing-localization, international, global standardization or transnational?
2. How would you characterize the approach to staffing used at Molex? Is this appropriate given its strategy?
3. Molex is very successful in its use of expatriate managers. Why do you think this is the case? What can be learned from Molex's approach?
4. How does the human resource function at Molex contribute to the attainment of its multinational strategy?

Sources: J. Laabs, "Molex Makes Global HR Look Easy," Workforce, March 1999, pp. 42-46; and M. Solomon, "Foreign Relations," Workforce, November 2000, pp. 50-56.

1.7 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- International marketing is the process of focusing the resources and objectives of a company on marketing opportunities at international level. Companies are engaged in international marketing for two reasons: firstly, to take advantage of opportunities of growth and expansion, and secondly, to eventually lose their domestic markets because they will be pushed aside by stronger and more competitive international competitors.
- The basic goals of marketing are to create customer value and competitive advantage by maintaining focus. Company management can be classified in terms of its orientation towards the world: ethnocentric, polycentric, Regiocentric, and geocentric.
- An ethnocentric orientation characterises domestic and international companies that pursue marketing opportunities outside the home market by extending various elements of the marketing mix. A polycentric would view predominates at a multinational company, where country managers operating autonomously adapt the marketing mix.

Notes

- Managers at international and Transnational companies are Regiocentric or geocentric in their orientation and pursue both extension and adaptation strategies in international markets.
- Today, the importance of international marketing is shaped by the dynamic interplay of several driving and restraining forces. The former include market needs and wants, technology, transportation improvements, costs, quality, international peace, world economic growth, and recognition of opportunities to develop leverage by operating internationally. Restraining forces include market differences, management myopia, organisational culture and national controls.

1.8 Keywords

Domestic Marketing: It is the form of marketing in which the firm faces only one set of competitive, economic and market issues.

Ethnocentric Orientation: In this people consider his home country superior to rest of the world.

Geocentric Orientation: This orientation views entire world as one big potential market.

Global Marketing: The performance of business activities that direct the flow of goods and services to consumers or users in more than one nation.

International Marketing: It is the performance of marketing across two different countries.

Marketing: It is the performance of business activity, directing the flow of products from producer to consumer.

Multinational Corporations: Organizations that manage production or offer services in more than on country.

Polycentric Orientation: This orientation believes that every country is unique.

Regiocentric Orientation: This orientation believes that each region is unique.

1.9 Review Questions

1. How is international marketing different from domestic marketing?
2. How can creating value for customer and customer focus give competitive advantage to the companies?
3. What is the importance of international marketing? Explain in brief.
4. What are 'Do's and don'ts' for success in International Marketing? How should the firm execute the dos and don'ts in the context of marketing?
5. Why is the task of the international marketer more complex and difficult than that of the domestic marketer?
6. Distinguish among (a) domestic marketing; (b) foreign marketing; (c) comparative marketing; (d) international trade; (e) international marketing; (f) multinational marketing; (g) global marketing and (h) world marketing.
7. Distinguish among (a) ethnocentricity, (b) polycentricity and (c) geocentricity.
8. What are the basic economic reasons which might influence a firm's decision or motivate a firm to plunge into international marketing?

Notes

9. "International Marketing has become indispensable in the economic development of a developing country". Comment with respect to the Indian situation.
10. What are the benefits of international marketing? Explain in brief.

Answers: Self Assessment

1.	Export	2.	international
3.	domestic	4.	foreign
5.	activities	6.	True
7.	False	8.	True
9.	False	10.	Polycentric
11.	Regiocentric	12.	Centralized
13.	India	14.	Foreign Exchange
15.	International Companies	16.	South Korea
17.	International		

1.10 Further Readings

Books

Cateora and Graham, *International Marketing*, McGraw Hill, 2007

Charles W.L. Hill, *International Business Competing in the Global Marketplace*, 4th Edition, Tata McGraw-Hill Publishing Company Limited

Chase Richard, Jacob Robert, Aquillano and Agarwal Nitin, *Operations Management*, 11th Edition, Tata McGraw-Hill Publishing Company Limited.

Justin Paul, *International Business*, 3rd Edition, Prentice Hall of India

Vasudeva, PK, *International Marketing*, Excel Books, New Delhi, 2010

Online links

http://www.citeman.com/2589-fundamentals-of-international-marketing.html

http://www.ey.com/GL/en/Issues/Business-environment/Six-global-trends-shaping-the-business-world—Emerging-markets-increase-their-global-power

http://www.nielsen.com/us/en/reports/2012/emerging-markets-emerging-opportunities.html

http://www.sagepub.com/upm-data/48216_Baack_Final_Proof_[FM].pdf

Notes

Unit 2: World Trade Organization

CONTENTS

Objectives

Introduction

2.1 World Trade Organization

2.1.1 Mission, Functions and Principles

2.1.2 Formal Structure

2.1.3 Dispute Settlement

2.1.4 Ministerial Conferences

2.1.5 Accession and Membership

2.1.6 Agreements

2.2 General Agreement on Tariffs and Trade (GATT)

2.2.1 History

2.2.2 GATT 1947 in the US

2.2.3 GATT 1949

2.2.4 GATT 1951

2.2.5 GATT 1955–1956

2.2.6 GATT "Dillon" 1960–1962

2.2.7 GATT "Kennedy" 1964–1967

2.2.8 GATT 1973–1979

2.2.9 GATT and the World Trade Organization

2.3 Establishment of World Trade Organization

2.4 The Uruguay Round Package: Organization Structure of the WTO

2.5 WTO – The Third Pillar in the Global Business

2.6 Summary

2.7 Keywords

2.8 Review Questions

2.9 Further Readings

Objectives

After studying this unit, you will be able to:

- Understand the various instruments of trade policy & political and economic arguments for government intervention in international trade.
- Re-examine the economic case for free trade in the light of the strategic trade policy argument and re-look at the evolution of the world trading framework.

Notes

Introduction

Our review of the classical trade theories of Smith, Ricardo, and Heckscher-Ohlin in showed that, in a world without trade barriers, trade patterns are determined by the relative productivity of different factors of production in different countries. Countries will specialize in products that they can make most efficiently, while importing products that they can produce less efficiently.

In this unit we look at the political reality of international trade. The political reality is that which many nations are nominally committed to free trade, they tend to intervene in international trade to protect the interests of politically important groups.

In this unit we explore the political and economic reasons that governments have for intervening in international trade. When governments intervene, they often do so by restricting imports of goods and services into their nation, while adopting policies that promote exports. Normally their moves are to protect domestic producers and jobs from foreign competition while increasing the foreign market for products of domestic producers.

2.1 World Trade Organization

The World Trade Organization deals with the rules of trade between nations at a near-global level; it is responsible for negotiating and implementing new trade agreements, and is in charge of policing member countries' adherence to all the WTO agreements, signed by the bulk of the world's trading nations and ratified in their parliaments. Most of the WTO's current work comes from the 1986–94 negotiations called the Uruguay Round, and earlier negotiations under the GATT. The organization is currently the host to new negotiations, under the Doha Development Agenda (DDA) launched in 2001.

The WTO is governed by a Ministerial Conference, which meets every two years; a General Council, which implements the conference's policy decisions and is responsible for day-to-day administration; and a director-general, who is appointed by the Ministerial Conference. The WTO's headquarters are in Geneva, Switzerland.

2.1.1 Mission, Functions and Principles

Following are the mission, functions and principles of WTO:

Mission

The WTO's stated goal is to improve the welfare of the peoples of its member countries, specifically by lowering trade barriers and providing a platform for negotiation of trade. Its main mission is "to ensure that trade flows as smoothly, predictably and freely as possible". This main mission is further specified in certain core functions serving and safeguarding five fundamental principles, which are the foundation of the multilateral trading system.

Functions

Among the various functions of the WTO, these are regarded by analysts as the most important:

- It oversees the implementation, administration and operation of the covered agreements.
- It provides a forum for negotiations and for settling disputes.

Additionally, it is the WTO's duty to review the national trade policies, and to ensure the coherence and transparency of trade policies through surveillance in global economic

Notes

policy-making. Another priority of the WTO is the assistance of developing, least-developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training. The WTO is also a centre of economic research and analysis: regular assessments of the global trade picture in its annual publications and research reports on specific topics are produced by the organization. Finally, the WTO cooperates closely with the two other components of the Bretton Woods system, the IMF and the World Bank.

Principles of the Trading System

It is concerned with setting the rules of the trade policy games. Five principles are of particular importance in understanding both the pre-1994 GATT and the WTO:

1. ***Non-discrimination:*** It has two major components: the Most Favoured Nation (MFN) rule and the national treatment policy. Both are embedded in the main WTO rules on goods, services, and intellectual property, but their precise scope and nature differ across these areas. The MFN rule requires that a WTO member must apply the same conditions on all trade with other WTO members, i.e. a WTO member has to grant the most favourable conditions under which it allows trade in a certain product type to all other WTO members. "Grant someone a special favour and you have to do the same for all other WTO members." National treatment means that imported and locally-produced goods should be treated equally (at least after the foreign goods have entered the market) and was introduced to tackle non-tariff barriers to trade (e.g. technical standards, security standards *et al.* discriminating against imported goods).
2. ***Reciprocity:*** It reflects both a desire to limit the scope of free-riding that may arise because of the MFN rule, and a desire to obtain better access to foreign markets. A related point is that for a nation to negotiate, it is necessary that the gain from doing so be greater than the gain available from unilateral liberalization; reciprocal concessions intend to ensure that such gains will materialize.
3. ***Binding and enforceable commitments:*** The tariff commitments made by WTO members in a multilateral trade negotiation and on accession are enumerated in a schedule (list) of concessions. These schedules establish "ceiling bindings": a country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade. If satisfaction is not obtained, the complaining country may invoke the WTO dispute settlement procedures.
4. ***Transparency:*** The WTO members are required to publish their trade regulations, to maintain institutions allowing for the review of administrative decisions affecting trade, to respond to requests for information by other members, and to notify changes in trade policies to the WTO. These internal transparency requirements are supplemented and facilitated by periodic country-specific reports (trade policy reviews) through the Trade Policy Review Mechanism (TPRM). The WTO system tries also to improve predictability and stability, discouraging the use of quotas and other measures used to set limits on quantities of imports.
5. ***Safety valves:*** In specific circumstances, governments are able to restrict trade. There are three types of provisions in this direction: articles allowing for the use of trade measures to attain non-economical objectives; articles aimed at ensuring "fair competition"; and provisions permitting intervention in trade for economic reasons.

Did u know? The WTO establishes a framework for trade policies; it does not define or specify outcomes.

Notes

2.1.2 Formal Structure

According to WTO rules, all WTO members may participate in all councils, committees, etc. except Appellate Body, Dispute Settlement panels, and plurilateral committees.

Highest Level: Ministerial Conference

The topmost decision-making body of the WTO is the Ministerial Conference, which has to meet at least every two years. It brings together all members of the WTO, all of which are countries or separate customs territories. The Ministerial Conference can make decisions on all matters under any of the multilateral trade agreements.

Second Level: General Council

The daily work of the ministerial conference is handled by three groups: the General Council, the Dispute Settlement Body, and the Trade Policy Review Body. All three consist of the same membership – representatives of all WTO members – but each meets under different rules.

1. The General Council, the WTO's highest-level decision-making body in Geneva, meets regularly to carry out the functions of the WTO. It has representatives (usually ambassadors or equivalent) from all member governments and has the authority to act on behalf of the ministerial conference which only meets about every two years. The council acts on behalf on the Ministerial Council on the entire WTO affairs.
2. The Dispute Settlement Body is made up of all member governments, usually represented by ambassadors or equivalent.
3. The WTO General Council meets as the Trade Policy Review Body (TPRB) to undertake trade policy reviews of Members under the TRPM. The TPRB is thus open to all WTO Members.

Third Level: Councils for Trade

The Councils for Trade work under the General Council. There are three councils – Council for Trade in Goods, Council for Trade-Related Aspects of Intellectual Property Rights, and Council for Trade in Services – each council works in different fields. Apart from these three councils, six other bodies report to the General Council reporting on issues such as trade and development, the environment, regional trading arrangements and administrative issues.

1. ***Council for Trade in Goods:*** The workings of the General Agreement on Tariffs and Trade (GATT) which covers international trade in goods are the responsibility of the Council for Trade in Goods. It is made up of representatives from all WTO member countries.
2. ***Council for Trade-Related Aspects of Intellectual Property Rights:*** Information on intellectual property in the WTO, news and official records of the activities of the TRIPS Council, and details of the WTO's work with other international organizations in the field.
3. ***Council for Trade in Services:*** The Council for Trade in Services operates under the guidance of the General Council and is responsible for overseeing the functioning of the General Agreement on Trade in Services (GATS). It's open to all WTO members, and can create subsidiary bodies as required.

Notes

Fourth Level: Subsidiary Bodies

There are subsidiary bodies under each of the three councils.

1. ***Goods Council:*** Subsidiary under the Council for Trade in Goods. It has 11 committees consisting of all member countries, dealing with specific subjects such as agriculture, market access, subsidies, anti-dumping measures and so on. Committees include the following:
   (a) Information Technology Agreement (ITA) Committee
   (b) State Trading Enterprises
   (c) Textiles Monitoring Body – Consists of a chairman and 10 members acting under it.
   (d) Groups dealing with notifications – process by which governments inform the WTO about new policies and measures in their countries.
2. ***Services Council:*** Subsidiary under the Council for Trade in Services which deals with financial services, domestic regulations and other specific commitments.
3. ***Dispute Settlement Panels and Appellate Body:*** Subsidiary under the Dispute Settlement Body to resolve disputes and the Appellate Body to deal with appeals.

Some other committees are:

- ***Committees on:***
  - Trade and Environment
  - Trade and Development (Subcommittee on Least-Developed Countries)
  - Regional Trade Agreements
  - Balance of Payments Restrictions
  - Budget, Finance and Administration
- ***Working parties on:***
  - Accession
- ***Working groups on:***
  - Trade, debt and finance
  - Trade and technology transfer

The WTO operates on a *one country, one vote* system, but actual votes have never been taken. Decision-making is generally by consensus, and relative market size is the primary source of bargaining power. The advantage of consensus decision-making is that it encourages efforts to find the most widely acceptable decision. Main disadvantages include large time requirements and many rounds of negotiation to develop a consensus decision, and the tendency for final agreements to use ambiguous language on contentious points that makes future interpretation of treaties difficult.

In reality, WTO negotiations proceed not by consensus of all members, but by a process of informal negotiations between small groups of countries. Such negotiations are often called "Green Room" negotiations (after the colour of the WTO Director-General's Office in Geneva), or "Mini-Ministerials", when they occur in other countries. These processes have been regularly criticized by many of the WTO's developing country members which are often totally excluded from the negotiations. Richard Steinberg (2002) argues that although the WTO's consensus

governance model provides law-based initial bargaining, trading rounds close through power-based bargaining favouring Europe and the United States, and may not lead to Pareto improvement.

Self Assessment

Fill in the blanks:

1. The ..... operates on a one country, one vote system, but actual votes have never been taken.
2. The Councils for ..... under the General Council.
3. The WTO system tries also to improve ..... and stability, discouraging the use of quotas and other measures used to set limits on quantities of imports.
4. The World Trade Organization deals with the rules of trade between ..... at a near-global level.
5. The WTO's stated goal is to improve the ..... of the peoples of its member countries, specifically by lowering trade barriers and providing a platform for negotiation of trade.

2.1.3 Dispute Settlement

Prompt compliance with recommendations or rulings of the DSB is essential in order to ensure effective resolution of disputes to the benefit of all Members.

— World Trade Organization, Article 21.1 of the DSU

In 1994, the WTO members agreed on the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) annexed to the "Final Act" signed in Marrakesh in 1994. Dispute settlement is regarded by the WTO as the central pillar of the multilateral trading system, and as a "unique contribution to the stability of the global economy". WTO members have agreed that, if they believe fellow-members are violating trade rules, they will use the multilateral system of settling disputes instead of taking action unilaterally.

Duration of a Dispute Settlement Procedure

These approximate periods for each stage of a dispute settlement procedure are target figures.

The agreement is flexible. In addition, the countries can settle their dispute themselves at any stage.

Totals are also approximate.

60 days	Consultations, mediation, etc.
45 days	Panel set up and panelists appointed
6 months	Final panel report to parties
3 weeks	Final panel report to WTO members
60 days	Dispute Settlement Body adopts report (if no appeal)
Total = 1 year (without appeal)	
60-90 days	Appeals report
30 days	Dispute Settlement Body adopts appeals report
Total = 1 year 3 months (with appeal)	

Notes

The operation of the WTO dispute settlement process involves the DSB panels, the Appellate Body, the WTO Secretariat, arbitrators, independent experts and several specialized institutions. The General Council discharges its responsibilities under the DSU through the Dispute Settlement Body (DSB). Like the General Council, the DSB is composed of representatives of all WTO Members. The DSB is responsible for administering the DSU, i.e. for overseeing the entire dispute settlement process. If a member state considers that a measure adopted by another member state has deprived it of a benefit accruing to it under one of the covered agreements, it may call for consultations with the other member state. If consultations fail to resolve the dispute within 60 days after receipt of the request for consultations, the complainant state may request the establishment of a panel. It is not possible for the respondent state to prevent or delay the establishment of a panel, unless the DSB by consensus decides otherwise. The panel, normally consisting of three members appointed *ad hoc* by the Secretariat, sits to receive written and oral submissions of the parties, on the basis of which it is expected to make findings and conclusions for presentation to the DSB. The proceedings are confidential, and even when private parties are directly concerned, they are not permitted to attend or make submissions separate from those of the state in question.

The final version of the panel's report is distributed first to the parties, and two weeks later it is circulated to all the members of the WTO. The report must be adopted at a meeting of the DSB within 60 days of its circulation, unless the DSB by consensus decides not to adopt the report or a party to the dispute gives notice of its intention to appeal. A party may appeal a panel report to a standing Appellate Body, but only on issues of law, and legal interpretations developed by the panel. Members may express their views on the report of the Appellate Body, but they cannot derail it: an Appellate Body report shall be adopted by the DSB and unconditionally accepted by the parties, unless the DSB decides by consensus within thirty days of its circulation not to adopt the report.

Within thirty days of the adoption of the report, the member concerned is to inform the DSB of its intentions; if the member explains that it is impracticable to comply immediately with the recommendations and rulings, it is to have a "reasonable period of time" in which to comply. If no agreement is reached about the reasonable period for compliance, that issue is to be the subject of binding arbitration. If there is a disagreement as to the satisfactory nature of the measures adopted by the respondent state to comply with the report that disagreement is to be decided by a panel, if possible the same panel that heard the original dispute, but apparently without the possibility of appeal from its decision.

If all else fails, two more possibilities are set out in the DSU:

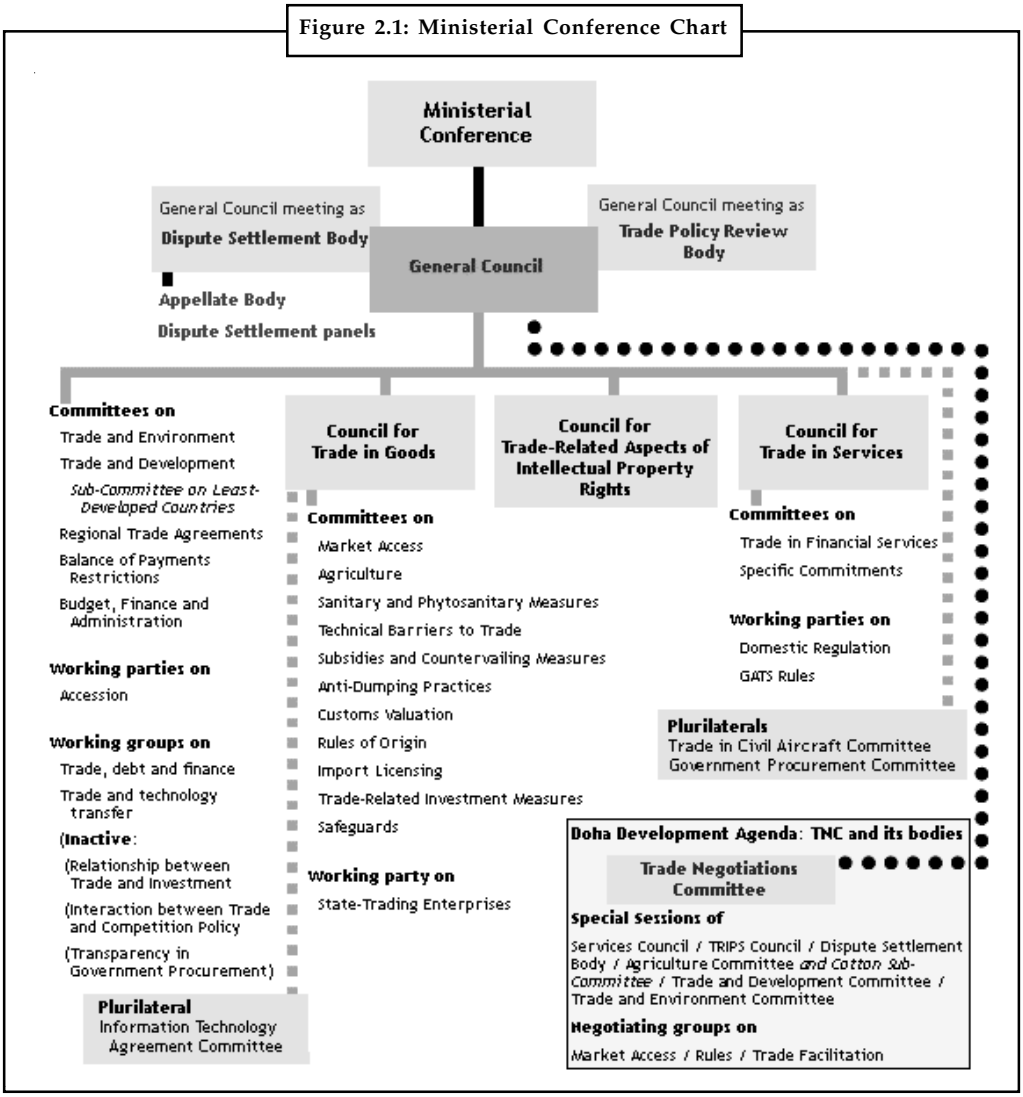
- If a member fails within the "reasonable period" to carry out the recommendations and rulings, it may negotiate with the complaining state for a mutually acceptable compensation.
- If no agreement on compensation is reached within twenty days of the expiry of the "reasonable period", the prevailing state may request authorization from the DSB to suspend application to the member concerned of concessions or other obligations under the covered agreements. In contrast to prior GATT practice, authorization to suspend concessions in this context is semi-automatic, in that the DSB "shall grant the authorization [...] within thirty days of the expiry of the reasonable period", unless it decides by consensus to reject the request.

The DSU states that fellow members should give "special attention" to the problems and interest of the developing countries. If one party to a dispute is a developing country, that party is entitled to have at least one panelist who comes from a developing country. Further, if a complaint is brought against a developing country, the time for consultations (before a panel is convened)

Notes

may be expended, and if the dispute goes to a panel, the deadlines for the developing country to make its submissions may be relaxed. Formal complaints against least developed countries are discouraged, and if consultations fail, the Director-General and the Chairman of the DSB stand ready to offer their good offices before a formal request for a panel is made. As to substance, the DSU provides that "particular attention" is to be paid to the interests of the developing countries, and that the report of panels shall "explicitly indicate" how account has been taken of the "differential and more favourable treatment" provisions of the agreement under which the complaint is brought. In order to assist developing countries overcome their limited expertise in WTO law and assist them in the management of complex trade disputes, an Advisory Centre on WTO Law was established in 2001.

Figure 2.1: Ministerial Conference Chart



Reporting to General Council (or a subsidiary)

Reporting to Dispute Settlement Body

Plurilateral committees inform the General Council or Goods Council of their activities, although these agreements are not signed by all WTO members

Trade Negotiations Committee reports to General Council

Notes

The General Council also meets as the Trade Policy Review Body and Dispute Settlement Body.

The negotiations mandated by the Doha Declaration take place in the Trade Negotiations Committee and its subsidiaries. This now includes the negotiations on agriculture and services begun in early 2000. The TNC operates under the authority of the General Council.

Each year new chairpersons for the major WTO bodies are approved by the General Council.

2.1.4 Ministerial Conferences

First Ministerial Conference

The conference was unique since it was the First Ministerial Conference after the formation of WTO and also because there was 22 applicants for membership.

The focus was mainly on assessing the implementation of commitments made under the WTO agreements. One of the significant observations made by the ministers was about the International Labour Organisation (ILO) being the competent body to set and deal with labour standards. The ministers rejected the use of labour standards for protectionist purposes and agreed that the comparative of countries, particularly low wage developing countries, must in no way be put to question. There was stress on full and faithful implementation of the provisions of the Agreement on Textiles and Clothing (ATC) The Conference witnessed the birth of the Information Technology Agreement.

Notes The inaugural ministerial conference was held in Singapore in 1996.

Caution Disagreements between largely developed and developing economies emerged during this conference over four issues initiated by this conference, which led to them being collectively referred to as the "Singapore issues".

Second Ministerial Conference

It was held in Geneva in Switzerland in 1998. The unique feature of this conference was that it coincided with the fiftieth anniversary of the establishment of the GATT (1947). The new WTO members present at Geneva were Congo, Mongolia, Niger and Panama.

The only substantive aspect emerged out of this conference was the adoption of the Declaration on Global Electronic Conference. The Declaration adopted on May 20, 1998 highlighted the fact that members would continue with their current practice of non-imposition of customs duties on electronic transmissions. The Declaration also directed the General Council to establish a comprehensive work programme to ensure all trade-related issues relating to global electronic conference.

Third Ministerial Conference

The third conference in Seattle, Washington in 1999. This Conference was unique in that it was held in tumultuous conditions and amid protests by non-governmental organisations and groups. The extraordinary situation prevailed during the Conference, with massive demonstrations and police and National Guard crowd control efforts drawing worldwide attention.

Notes

The areas and issues covered at the conference included the following:

Agriculture Working Group: Two positions emerged during the discussions. One position favoured complete integration of agricultural trade into the same rules as other products, the total elimination of export subsidies and substantial increases in market access. The opposite position was that agriculture differed from other sectors and therefore did not favour the notion of integrating agricultural trade with that of other products. The proponents of this position did not accept the elimination of export subsidies and stressed the need to take into account the several important societal functions that came under the purview of the agricultural sector.

Working Group on Implementation and Rules: Many developing countries expressed concern and called attention to:

1. Difficulty in implementing certain WTO agreements and asked for extension of deadlines in TRIPS, TRIMS, Customs Valuation, and
2. Imbalance in certain agreements and called for changes in certain provisions of the anti-dumping, subsidies and textiles agreements.

Working Group on Market Access: The position of draft declaration on market access (reductions in import duties, access to service markets, etc.) contained a number of unresolved issues that included-coverage, scope and methodology of the negotiations; the extent to which tariffs on non-agricultural products should be reduced and whether members should cut tariffs on a 'request-offer' bilateral basis as in the Uruguay Round or there should be a common multilateral approach at harmonising tariffs aspect or a mix of both; Non-tariff measure; concerns of developing country members with regard to a proposal that exports from Least Developed Countries (LDCs) should be given 'ground zero' tariffs in richer countries.

Systemic Issues: Issues raised by member governments were related to De-restriction of documents, Improvement in transparency and decision making; improvements in information flows, and establishment of public understanding and participation in the workings of the organisation.

Trade and Labour Standards: A new working group was set up on the last day of the conference to discuss proposals for creating a labour standards working group within the WTO or a body operated jointly by a number of international organisation. Opinions differed, with a number of developing countries opposing the creation of either type of body.

Fourth Ministerial Conference

It was held in Doha in Persian Gulf nation of Qatar in November, 2001 in which Ministers from the 142 member countries participated.

At the Fourth Ministerial Conference WTO member governments agreed to launch new negotiations. They also agreed to work on other issues, in particular the implementation of the present agreements. The entire package is called the **Doha Development Agenda (DDA).** It consist of three major issues: (i) on the negotiating agenda for the new WTO round, (ii) on some 40 implementation concerns of the developing countries and (iii) on the political statement dealing with patents and public health.

The negotiations take place in the **Trade Negotiations Committee** and its subsidiaries, which are usually, either regular councils and committees meeting in "special sessions", or specially-created negotiating groups. Other work under the work programme takes place in other WTO councils and committees.

Notes

Fifth Ministerial Conference

The ministerial conference was held in Cancún, Mexico, aiming at forging agreement on the Doha round. An alliance of 22 southern states, the G20 (led by India, People's Republic of China and Brazil), resisted demands from the North for agreements on the so-called "Singapore issues" and called for an end to agricultural subsidies within the EU and the US. The talks broke down without progress.

The Fifth Ministerial Conference in Cancún, Mexico, in September 2003, was intended as a stock-taking meeting where members would agree on how to complete the rest of the negotiations. But the meeting was soured by discord on agricultural issues, including cotton, and ended in deadlock on the "Singapore issues". Real progress on the Singapore issues and agriculture was not evident until the early hours of 1 August 2004 with a set of decisions in the General Council (sometimes called the July 2004 package). The original 1 January 2005 deadline was missed. After that, members unofficially aimed to finish the negotiations by the end of 2006, again unsuccessfully. Further progress in narrowing members' differences was made at the Hong Kong Ministerial Conference in December 2005, but some gaps remained unbridgeable and Director-General Pascal Lamy suspended the negotiations in July 2006. Efforts then focused on trying to achieve a breakthrough in early 2007.

Sixth Ministerial Conference

It was considered vital if the four-year-old Doha Development Agenda negotiations were to move forward sufficiently to conclude the round in 2006. In this meeting, countries agreed to phase out all their agricultural export subsidies by the end of 2013, and terminate any cotton export subsidies by the end of 2006. Further concessions to developing countries included an agreement to introduce duty free, tariff free access for goods from the Least Developed Countries, following the Everything But Arms initiative of the European Union – but with up to 3% of tariff lines exempted. Other major issues were left for further negotiation to be completed by the end of 2006.

Did u know? The sixth WTO Conference Ministerial was held in Hong Kong from December 13-December 18, 2005?

Self Assessment

Fill in the blanks:

6. At the ..... WTO member governments agreed to launch new negotiations.
7. A new working group was set up on the last day of the ..... to discuss proposals for creating a labour standards working group within the WTO or a body operated jointly by a number of international organisation.
8. The inaugural ministerial conference was held in ..... in 1996.
9. The ..... conference in Seattle, Washington in 1999. This Conference was unique in that it was held in tumultuous conditions and amid protests by non-governmental organisations and groups.
10. One of the significant observations made by the ministers was about the ..... being the competent body to set and deal with labour standards.

Notes

2.1.5 Accession and Membership

The process of becoming a WTO member is unique to each applicant country, and the terms of accession are dependent upon the country's stage of economic development and current trade regime. The process takes about five years, on average, but it can last more if the country is less than fully committed to the process or if political issues interfere. As is typical of WTO procedures, an offer of accession is only given once consensus is reached among interested parties.

Accession Process

A country wishing to accede to the WTO submits an application to the General Council, and has to describe all aspects of its trade and economic policies that have a bearing on WTO agreements. The application is submitted to the WTO in a memorandum which is examined by a working party open to all interested WTO Members. After all necessary background information has been acquired, the working party focuses on issues of discrepancy between the WTO rules and the applicant's international and domestic trade policies and laws. The working party determines the terms and conditions of entry into the WTO for the applicant nation, and may consider transitional periods to allow countries some leeway in complying with the WTO rules. The final phase of accession involves bilateral negotiations between the applicant nation and other working party members regarding the concessions and commitments on tariff levels and market access for goods and services. The new member's commitments are to apply equally to all WTO members under normal non-discrimination rules, even though they are negotiated bilaterally.

When the bilateral talks conclude, the working party sends to the General Council or Ministerial Conference an accession package, which includes a summary of all the working party meetings, the Protocol of Accession (a draft membership treaty), and lists ("schedules") of the member-to-be's commitments. Once the General Council or Ministerial Conference approves of the terms of accession, the applicant's parliament must ratify the Protocol of Accession before it can become a member.

Members and Observers

The WTO has 151 members (almost all of the 123 nations participating in the Uruguay Round signed on at its foundation, and the rest had to get membership). The 27 states of the European Union are represented also as the European Communities. WTO members do not have to be full sovereign nation-members. Instead, they must be a customs territory with full autonomy in the conduct of their external commercial relations. Thus Hong Kong became a GATT contracting party, and Chinese Taipei (Taiwan) acceded to the WTO in 2002. A number of non-members have been observers (31) at the WTO and are currently negotiating their membership. With the exception of the Holy See, observers must start accession negotiations within five years of becoming observers. Some international intergovernmental organizations are also granted observer status to WTO bodies. 15 states and 2 territories so far have no official interaction with the WTO.

2.1.6 Agreements

The WTO oversees about 60 different agreements which have the status of international legal texts. Member countries must sign and ratify all WTO agreements on accession. A list of WTO agreements can be found here. A discussion of some of the most important agreements follows:

Agreement on Agriculture (AoA)

The AoA came into effect with the establishment of the WTO at the beginning of 1995. The AoA has three central concepts, or "pillars": domestic support, market access and export subsidies.

Notes

Domestic Support: The first pillar of the AoA is "domestic support". The AoA structures domestic support (subsidies) into three categories or "boxes": a Green Box, an Amber Box and a Blue Box. The Green Box contains fixed payments to producers for environmental programmes, so long as the payments are "decoupled" from current production levels. The Amber Box contains domestic subsidies that governments have agreed to reduce but not eliminate. The Blue Box contains subsidies which can be increased without limit, so long as payments are linked to production-limiting programmes.

The AoA's domestic support system currently allows Europe and the USA to spend $380 billion annually on agricultural subsidies alone. "It is often still argued that subsidies are needed to protect small farmers but, according to the World Bank, more than half of EU support goes to 1% of producers while in the US 70% of subsidies go to 10% of producers, mainly agri-businesses". The effect of these subsidies is to flood global markets with below-cost commodities, depressing prices and undercutting producers in poor countries – a practice known as dumping.

Market Access: "Market access" is the second pillar of the AoA, and refers to the reduction of tariff (or non-tariff) barriers to trade by WTO members. The 1995 AoA required tariff reductions of:

- 36% average reduction by developed countries, with a minimum per tariff line reduction of 15% over five years.
- 24% average reduction by developing countries with a minimum per tariff line reduction of 10% over nine years.

Least Developed Countries (LDCs) were exempted from tariff reductions, but either had to convert non-tariff barriers to tariffs—a process called tariffication—or "bind" their tariffs, creating a "ceiling" which could not be increased in future.

Export Subsidies: "Export subsidies" is the third pillar of the AoA. The 1995 AoA required developed countries to reduce export subsidies by at least 35% (by value) or by at least 21% (by volume) over the five years to 2000.

Criticism: The AoA is criticized for reducing tariff protections for small farmers – a key source of income for developing countries – while allowing rich countries to continue to pay their farmers massive subsidies which developing countries cannot afford.

General Agreement on Trade in Services (GATS)

GATS is a set of multilateral rules covering international trade in services. The GATS, for the first time, extended internationally agreed rules and commitments into the area of international trade in services.

The GATS has two parts: the framework agreement containing the general rules and disciplines, and the national "schedules" which list individual countries' specific commitments on access to their domestic markets by foreign suppliers.

Each WTO member lists, in its national schedule, those services for which it wishes to guarantee access to foreign suppliers. All commitments apply on a non-discriminatory basis to all other members unlike the GATT, the GATS gives complete freedom to members to choose which services to commit for opening up. In addition to the services committed, the schedules limit the degree to which foreign service providers can operate in the market.

Further negotiations for progressive liberalization (mandated negotiations) commenced on January 1, 2000 as mandated under GATS.

GATS in Brief: Services mentioned in GATS are supplied neither on a commercial basis nor in competition with other suppliers such as social security schemes and central banking so also

services in the air transport sector, traffic rights and all services directly related to the exercise of traffic rights.

Modes of Supply: The GATS sets out four modes of supplying services:

- ***Mode 1:*** Cross border trade
- ***Mode 2:*** Consumption abroad
- ***Mode 3:*** Commercial presence
- ***Mode 4:*** Presence of natural persons

General Principles: These are basic rules that apply to all members for all services

- ***MFN Treatment:*** This means that "Each member shall accord immediately and unconditionally to services and service suppliers of any other member, treatment no less, than it accords to like services and service suppliers of all other country." However a member is permitted to maintain a measure inconsistent with the general MFN agreement if it has established an exception.

  All exceptions are subject to review and in principle and do not last longer that 10 years.
- ***Transparency:*** The GATS require each member to publish promptly all relevant measures of general application that affect operation of agreement

Specific Obligations: These requirements apply only to scheduled sectors:

- ***Market Access:*** The GATS also sets out different forms of measures affecting free market access that should be applied to a service provider or its supplier only after clear provisions have been made in the member scheduled.

  The market access limitations include:

  - Limitation on the number of service suppliers
  - Limitation on the total value of service transactions or assets
  - Limitations on the total number of service operations or the total quantity of service output
  - Percentage limitations and the participation of foreign capital or the limitations on the total value of foreign investment
- ***National Treatment:*** Each member should treat to foreign services and service suppliers if measures affecting supply of services, no less favourably than to its own services and suppliers.

Exemptions: Members in specified circumstances are allowed to introduce or maintain measures in contravention of their obligations under the agreement, including the MFN requirement or specific commitments. These circumstances cover measures necessary to protect public morals or maintain public order, protect human, animal or plant life or health or secure compliance with laws or regulations not inconsistent with this Agreement including among others, measures necessary to prevent deceptive or fraudulent practices.

Irreversible Commitments: Member governments are always free to liberalise unilaterally without making commitments in the GATS. Nevertheless, GATS commitments like tariff bindings are not irreversible.

Regional Trading Arrangements: Apart from services provided in individual MFN exemption lists, the only permitted departure from most favoured-nation treatment under the GATS is among countries that are members of regional trading arrangements. The GATS rules on 'Economic

Notes

Integration', in Article V, are modelled on those in Article XXIV (Territorial Application-Frontier Traffic-Customs Unions and Free Trade Areas) of the GATT, although the absence of a services' equivalent to import duties means that there is no distinction comparable to that between customs unions and free trade area.

Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement

The main objective is to provide protection to the holder of the intellectual property right, which can be claimed by an individual, company or even people of a geographical region.

This right over an intellectual property can be called a 'monopoly right' conferred on the inventor (patent on an industrial product), creator (copyright over a literary work) or user (trademark of a business establishment) or regions (Geographical Indicators of Origin). This right, recognised as "legal property", however, can be claimed for fixed pre-determined periods of time except Trademarks and Geographical indications of Origin where protection is offered in perpetuity.

TRIPS coverage: The agreement encompasses the following areas:

- ***Patents:*** Patents are given inventions that are-new (or Novel), non–obvious, should have industrial application (commercial use).
  - *Term of a patent:* A parent is valid for 20 years from the date of filing of the patent.
  - *Inventions that can be patented:* Biological inventions, computer hardware and peripherals, computer software, cosmetics, food inventions, machines, mechanical inventions, medical accessories and devices, medicines, musical instruments etc.
  - *Inventions that cannot be patented:* Order public or morality; Diagnostic, therapeutic and surgical methods; plants and animals other than micro-organisms.
  - *Compulsory Licensing:* Compulsory licensing and government use without the authorisation of the right holder are allowed but are made subject to conditions aimed at protecting the legitimate interests of the right holder.
  - *Scope and Duration:* The scope and duration of such use without the authorisation of the right holder must be limited to the purpose for which it is authorised.
  - Non-exclusive Licenses
  - *Indian Patents Act:* The salient features are
    - Terms of every patient is 20 years from the date of filing.
    - A new definition of 'invention' meaning a new product or process involving inventive step and capable of industrial application has been incorporated.
    - A method or process of testing during the process of manufacture will be patentable.
    - Process in case of plants, are now patentable while a process for diagnostic and therapeutic use has now been considered as non-patentable. Every patent (except in which a secrecy direction is given) will now be published just after 18 months from the date of filing/priority and will be open for public on payment. As such, the filing intimation being published in the Gazette immediately after filing has been stopped.
    - Provision for filing request for examination by any other interested person (other than applicant) also has been introduced.

Notes

- Provision for the withdrawal of application by applicant any time before grant has been introduced.
- Time for putting the application in order for acceptance has now been from 15/18 months to 12 months.
- Grounds for opposition as well as revocation have been enlarged by adding the following grounds (i) Non-disclosure or wrongly mentioning the source of geographical origin of biological material used for invention; (ii) Anticipation having regard to the knowledge, oral or otherwise available within local or indigenous community in India or elsewhere.

- ***Copyright:*** A copy right prohibits persons from reproducing or 'copying' any 'literary, dramatic, musical work' without the consent of the owner who has the copyright over that work. This protection also applies to cinematograph films, sound recordings and now, computer programmes.

  The TRIPS Agreement mentions that "copyright protection shall extend to expressions and not to ideas, procedures and methods of operation or mathematical concepts as such." Just as 'commercial use or utility' is an important precondition for the granting of a patent, ideas should have crystallised as expressions or artistic forms for the granting of a patent.

  Copyright subsists in the following class of 'works': Literary Work; Dramatic work; Artistic works.

- ***Trademarks:*** A trademark is a visual symbol in the form of a word, device, name, letter or numeral, brand, heading, signature or label or any combination of these that enable a person to make a connection between a product and the company involved in offering the product. The company can be one involved in manufacturing goods or offering services. In case of the latter, the term 'service mark' is used.

- ***Indian Act:*** The Trademarks Act of 1999 came into effect on September 15, 2003, mentions the grounds for refusal of registration of a trademark. The reasons could be when the trademark:

  1. Is devoid of any distinctive character, that there is difficulty in distinguishing between goods or services
  2. Consists exclusively of marks or indications which have become customary in the current language, that is, an absence of distinctiveness
  3. Is of such a nature as to deserve the public or cause confusion
  4. Contains or comprises any matter that hurts religious feelings.
  5. Comprises or contains scandalous or obscene matter
  6. Consists exclusively of the shape of a good, e.g. the photo of mango by itself cannot be a trademark.

  Under the Trade Marks Act of 1999, there is provision for infringement of a trademark.

- ***Geographical Indications:*** Geographical indications are place, names used to identify the origin and quality, reputation or other characteristics of products. The examples usually are "Champagne", "Tequila" or "Roquefort". However, countries such as India would like "Kanjivaram Saree" and perhaps even "Mysore Dosa" to become standard examples.

  Protection required under the TRIPS Agreement is defined in two Articles. All products are covered by Article 22, which defines a standard level of protection. This says that geographical indications have to be protected in order to avoid misleading the public and to prevent unfair competition.

Notes

The protection being provided exclusively under Article 23 for wines and spirits is unfortunately not available to several products from the developing world.

- ***Layout Designs (Topographies) of Integrated Circuits:*** With regard to the treaty on intellectual property in respect of Integrated Circuits (IPIC Treaty), members agreed to provide protection to the layout-designs (topographies) of integrated circuits (referred in the WTO Agreement as "layout-designs".

  In the event of trading in an integrated circuit incorporating an unlawfully reproduced layout design or any article incorporating such an integrated circuit, the person concerned, upon being informed of such an act, shall pay the "holder a sum equivalent to a reasonable royalty such as would be payable under a freely negotiated license in respect of such a layout design".

Indian IC Layout Design Act

The Semi-conductor Integrated Circuits Layout Design Act, 2000, which received Presidential assent in September 2000, among other things, mentions the following:

"Layout Design" means a layout of transistors and other circuitry elements and included lead wires connecting such elements and expressed in any manner in a semi-conductor circuit.

"Semi-conductor Integrated Circuit" means a product having transistors and other circuitry elements which are inseparably formed on semi-conductor material or on insulating material or inside semi-conductor material and designed to perform an electronic circuitry function.

The Act disallows registration for IC layout design that is:

- Not original; or
- That has been commercially exploited anywhere in India or in a convention country; or
- That is not inherently distinctive; or
- That is not inherently distinguishable from any other registered layout design.

The registration of a layout design is for a period of 10 years from the date of filling of an application for registration or from the date of first commercial exploitation anywhere in India or any country, whichever is earlier.

Industrial Designs: A design must satisfy the following:

- It must be new or original, meaning that the design must have not been previously published.
- It must relate to the features of shape.
- It must be applied to any article by industrial process.
- It should appeal to and be judged solely by the naked eye.

Article 25 on "Requirements for Protection" states that:

1. Members shall provide for the protection of independently created industrial designs that are new or original.
2. Each member shall ensure that requirements for securing protection for textile designs, in particular in regard to any cost, examination or publication, do not unreasonably impair the opportunity to seek and obtain such protection.

Notes

Article 26 on 'Protection' states that:

1. The owner of a protected industrial design shall have the right to prevent third parties not having the owner's consent from making, selling, selling or importing articles bearing or embodying a design which is a copy, or substantially a copy, of the protected design, when such acts are undertaken for commercial purposes.
2. The duration of protection available shall amount to at least 10 years. (The Indian Designs Act, 2000, also provides the same protection of 10 years)

Indian Designs Act

The existing legislation on industrial designs in India is contained in the Designs Act, 2000.

Among other things, the Act mentions the following:

- 'Article' means any article of manufacture and any substance, artificial, or partly artificial and partly natural and includes any part of an article being made and sold separately.
- 'Design' means only the features of shape, configuration, pattern, ornament or composition of lines or colours applied to any article whether in two dimensional or three dimensional or in both forms, by any industrial process or means, whether manual, mechanical, or chemical, separate or combined, which in the finished article appeal to and are judged solely by the eye.
- "Prohibition of Registration of Certain Designs"

  A design will not be registered:

  - If it is not new or original; or
  - If it has been disclosed to the public anywhere in India or in any other country by publication in any tangible form or by use or in any other way prior to the filing date; or
  - If it is not significantly distinguishable from known designs or combination of known designs; or
  - If it comprises or contains scandalous or obscene material

The copyright of a registered design will extend for 10 years from the date of registration, extendable on an application from the registered proprietor for a second period of five years from the expiration of the original period.

TRIPS and Control of Anti-competitive practices: Under Section 8 regarding 'Control of Anti-competitive practices in Commercial Licenses' there is recognition "that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dimension of technology".

Thus members are allowed to specify in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market.

Sanitary and Phytosanitary (SPS) Agreement

The Agreement on the Application of Sanitary and Phytosanitary Measures – also known as the SPS Agreement was negotiated during the Uruguay Round of the General Agreement on Tariffs and Trade, and entered into force with the establishment of the WTO at the beginning of 1995.

Notes

Under the SPS agreement, the WTO sets constraints on members' policies relating to food safety (bacterial contaminants, pesticides, inspection and labelling) as well as animal and plant health (imported pests and diseases).

SPS & Genetically Modified Organisms (GMOs): In 2003, the United States challenged a number of EU laws restricting the importation of Genetically Modified Organisms (GMOs), arguing they are "unjustifiable" and illegal under SPS agreement. In May 2006, the WTO's dispute resolution panel issued a complex ruling which took issue with some aspects of the EU's regulation of GMOs, but dismissed many of the claims made by the U.S.

Criticism: Quarantine policies plays an important role in ensuring the protection of human, animal and plant health. Yet under the SPS agreement, quarantine barriers can be a 'technical trade barrier' used to keep out foreign competitors.

The SPS agreement gives the WTO the power to override a country's use of the precautionary principle – a principle which allows them to act on the side of caution if there is no scientific certainty about potential threats to human health and the environment. In *EC measures Concerning Meat and Meat Products (Hormones)* WT/DS/26/AB/R the Appellate Body of the WTO held that it was "less than clear" whether the precautionary principle had crystallized into a principle of customary international law, (EC-Hormones paragraph 123) and even if it had, it could not override the provisions of Articles 5.1 and 5.2 of the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) that require members to base their measures on a risk assessment. (EC-Hormones paragraphs 123, 124 and 125.See discussion K Kennedy "Resolving International Sanitary and Phytosanitary Disputes in the WTO: Lessons and Future Directions" (2000) Volume 55 Food and Drug Law Journal 81 at 95) The Appellate Body also pointed out that the principle had not been written into the SPS Agreement, although the Appellate Body conceded that the principle was reflected in the sixth paragraph of the preamble of the SPSA, as well as articles 3.3 and 5.7.(EC-Hormones paragraph 124) Article 3.3 allows members to implement quarantine measures higher than those found in international standards, as long as the measures otherwise comply with the SPS Agreement; while Article 5.7 allows provisional measures where there is insufficient scientific evidence. Additionally, the Appellate Body acknowledged that article 5.7 does not necessarily exhaust the relevance of the precautionary principle and that, where there are risks of irreversible damage, governments often act from the point of view of prudence. (EC-Hormones paragraph 124)

Under SPS rules, the burden of proof is on countries to demonstrate scientifically that something is dangerous before it can be regulated, even though scientists agree that it is impossible to predict all forms of damage posed by insects or pest plants.

Agreement on Trade-related Investments

The Agreement on Trade-related Investment Measures (the 'TRIMs Agreement') applies to investment measures related to trade in goods only. The Agreement restrains members from applying any investment measure that is inconsistent with the provisions of Article III (National Treatment on Internal Taxation and Regulation) or Article XI (General Elimination of Quantitative Restrictions) of the GATT 1994. The Agreement carries an illustrative list of trade related investment measures that are inconsistent with the obligation of national treatment provided for in Paragraph 4 of Article III and the obligation of general elimination of quantitative restrictions provided for in Paragraph I of Article XI of GATT 1994.

TRIMS Inconsistent

Notes

1. TRIMS that are inconsistent with the obligation of national treatment provided for in Paragraph 4 of Article III include those which are mandatory or enforceable under domestic law or under administrative rulings, or compliance with which is necessary to obtain an advantage, and which require
   - The purchase or use by an enterprise of products of domestic origin, or from any domestic source, whether specified in terms of particular products, in terms of volume or value of products, or in terms of a proportion of volume or value of its local production ("Local Content Requirements"); or
   - That an enterprise's purchases or use of imported products be limited to an amount related to the volume or value of local products that it exports.
2. TRIMs that are inconsistent with the obligation of general elimination of quantitative restrictions provided for in Paragraph I of Article XI of GATT 1994 include those which are mandatory or enforceable under domestic law or under administrative rulings, or compliance with which is necessary to obtain an advantage and which restrict:
   - The importation by an enterprise of products used in or related to its local production, generally or to an amount related to the volume or value of local production that it exports ("Trade Balancing Requirements");
   - The importation by an enterprise of products used in or related to its local production by restricting its access to foreign exchange to an amount related to the foreign exchange inflows attributable to the enterprise ("Foreign Exchange Balancing Requirements"); or
   - The exportation or sale for export by an enterprise of products, whether specified in terms of particular products, in terms of volume or value of products, or in terms of a proportion of volume or value of its local production ("Export Performance Requirements").

Developing country Members: Members categorized as developing countries are given special concessions. A developing country members facing balance of payment problems can deviate, temporarily though from the provisions of Articles III and XI of the GATT 1994.

Withdrawal of Measure: Members were required to follow a specified timetable for withdrawal of measures that were not compatible with TRIMS:

- ***Developed country member:*** within two years of the date of entry into force of the WTO Agreement, that is within January 1997.
- ***Developing country member:*** within five years of the date of entry into force of the WTO Agreement, that is within January 2000.
- ***Least-developed country member:*** within seven years of the date of entry into force of the WTO Agreement, that is within January 2002.

However the Council for Trade in Goods (CTG) was given the option to extend the transition period for the elimination of TRIMs for developing country and least-developed country members demonstrating particular difficulties in implementing the provisions of the Agreement. The CTG when considering such a request was required to take into account the individual development, financial and trade needs of the members making the request.

Notes

Apart from the above allowance given to developing country and LCD members, the Agreement took into consideration situations where an established enterprise subject to a TRIM notification had to meet new competition during the transition period.

Given such a condition, any member, developed or developing, could apply the same TRIM to the new investment (i) where the products of such investment were like products to those of the established enterprises and (ii) where necessary to avoid distorting the conditions of competition between the new investment and the established enterprises. Such a new measure had to be notified to the CTG with the date of termination being the same for both the old and new members.

Agreement on Technical Barriers to Trade (TBT)

The Agreement on Technical Barriers to Trade – also known as the TBT Agreement is an international treaty of the World Trade Organization. It was negotiated during the Uruguay Round of the General Agreement on Tariffs and Trade, and entered into force with the establishment of the WTO at the end of 1994.

The object of the TBT Agreement is to "to ensure that technical negotiations and standards, as well as testing and certification procedures, do not create unnecessary obstacles to trade".

Caselet

Case of African Individual

Economist Andre Nijsen uses the example of Tanzania, in Africa, to show how a usable set of export policies can be adopted. In the 1990s, this poor, African state sought to triple its exports and imitate the success of the East Asian States. The basic Tanzanian policy was to first identify the country's strengths. In this case, it was plentiful natural resources such as minerals usable in the global industry. The government intervenes, creating the incentive structure important to development. The government would make it easier in every way to shift production to the export market, even underwriting new industries. The legal, regulatory and judicial sectors were overhauled, and the infrastructure of the country was targeted for investment and improvement. While the program was only a partial success—largely due to public sector failures—the basic pillars of this reform remain sound.

Source: http://www.ehow.com/info_7779251_export-development.html

2.2 General Agreement on Tariffs and Trade (GATT)

The General Agreement on Tariffs and Trade (typically abbreviated GATT) was originally created by the Breton Woods Conference as part of a larger plan for economic recovery after World War II. The GATT's main purpose was to reduce barriers to international trade. This was achieved through the reduction of tariff barriers, quantitative restrictions and subsidies on trade through a series of different agreements. The GATT was an agreement, not an organization. Originally, the GATT was supposed to become a full international organization like the World Bank or IMF called the International Trade Organization. However, the agreement was not ratified, so the GATT remained simply an agreement. The functions of the GATT have been replaced by the World Trade Organization which was established through the final round of negotiations in the early 1990s.

Notes

2.2.1 History

The history of the GATT can be divided into three phases: the first, from 1947 until the Torquay round, largely concerned which commodities would be covered by the agreement and freezing existing tariff levels. A second phase, encompassing three rounds, from 1959 to 1979, focused on reducing tariffs. The third phase, consisting only of the Uruguay Round from 1986 to 1994, extended the agreement fully to new areas such as intellectual property, services, capital, and agriculture. Out of this round the WTO was born.

Task Make a short report on GATT.

GATT 1947

The first version of GATT, developed in 1947 during the United Nations Conference on Trade and Employment in Havana, Cuba, is referred to as "GATT 1947". On January 1, 1948 the agreement was signed by 23 countries: Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, the Republic of China, Cuba, the Czechoslovak Republic, France, India, Lebanon, Luxembourg, Netherlands, New Zealand, Norway, Pakistan, Southern Rhodesia, Syria, South Africa, the United Kingdom, and the United States. 45,000 tariff concessions were made influencing over $10 billion in trade which comprised 20% of the total global market at the time.

2.2.2 GATT 1947 in the US

The GATT, as an international agreement, is similar to a treaty. Under United States law it is classified as a congressional-executive agreement. Based on the Reciprocal Trade Agreements Act it allowed the executive branch negotiating power over trade agreements with temporary authority from Congress. At the time it functioned as a provisional, but promising trade system. The agreement is based on the "*unconditional most favoured nation principle*." This means that the conditions applied to the most favoured trading nation (i.e. the one with the least restrictions) apply to all trading nations. In the US, there was large opposition against the International Trade Organization (which had been ratified in several countries, including Australia), and thus President Truman never even submitted it to Congress. This caused other countries to lose interest and left the orphaned GATT as the world's only multilateral trade agreement, coming into force on January 1, 1948.

2.2.3 GATT 1949

The second round took place in 1949 in Annecy, France. The main focus of the talks was more tariff reductions, around 5000 total.

2.2.4 GATT 1951

The third round occurred in Torquay, England in 1951. 8,700 tariff concessions were made totaling the remaining amount of tariffs to three-fourths of the tariffs which were in effect in 1948.

2.2.5 GATT 1955–1956

The fourth round returned to Geneva in 1955 and lasted until May 1956. $2.5 billion in tariffs were eliminated or reduced.

Notes

2.2.6 GATT "Dillon" 1960–1962

The fifth round occurred once more in Geneva and lasted from 1960 to 1962. The talks were named after Under Secretary of State General of the US, Douglas Dillon, who first proposed the talks. Along with reducing over $4.9 billion in tariffs, it also yielded discussion relating to the creation of the European Economic Community (EEC).

2.2.7 GATT "Kennedy" 1964–1967

The sixth round was the last to take place in Geneva from 1964 until 1967 and was named after the late US President Kennedy in his memory. Concessions were made on $40 billion worth of tariffs. Some of the GATT negotiation rules were also more clearly defined.

2.2.8 GATT 1973–1979

The seventh round of GATT took place in Tokyo from 1973 until 1979. The talks managed to reduce several trade barriers in addition to $300 billion in tariffs. Negotiations covered a range of topics including government procurement, customs valuation, subsidies, countervailing measures, antidumping, standards and import licensing.

2.2.9 GATT and the World Trade Organization

The other 52 GATT members rejoined the WTO in the following two years (the last being Congo in 1997). Since the founding of the WTO, 21 new non-GATT members have joined and 28 are currently negotiating membership.

Of the original GATT members, only the SFR Yugoslavia has not rejoined the WTO. Since FR Yugoslavia, (renamed to Serbia and Montenegro and with membership negotiations later split in two), is not recognised as a direct SFRY successor state; therefore, its application is considered a new (non-GATT) one. The contracting parties who founded the WTO ended official agreement of the "GATT 1947" terms on December 31, 1995.

Notes In 1994 the GATT was updated to include new obligations upon its signatories. One of the most significant changes was the creation of the World Trade Organization (WTO)

Whereas GATT was a set of rules agreed upon by nations, the WTO is an institutional body. The WTO expanded its scope from traded goods to trade within the service sector and intellectual property rights. Although it was designed to serve multilateral agreements, during several rounds of GATT negotiations (particularly the Tokyo Round) plurilateral agreements created selective trading and caused fragmentation among members. WTO arrangements are generally a multilateral agreement settlement mechanism of GATT.

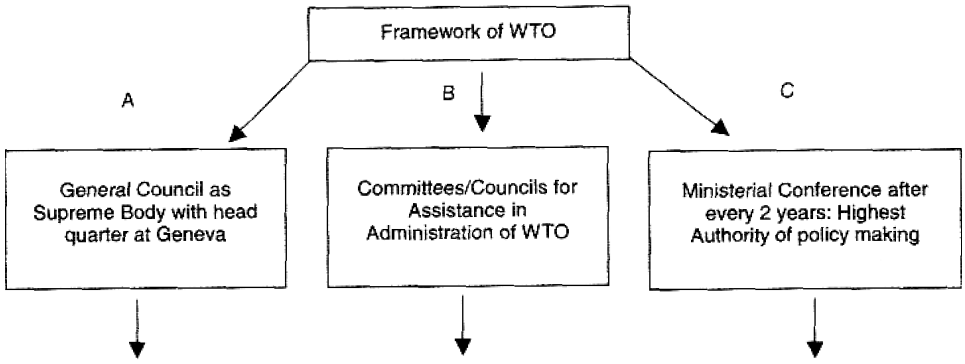
Did u know? The 75 existing GATT members and the European Communities became the founding members of the WTO on January 1, 1995.

Notes

2.3 Establishment of World Trade Organization

The administrative framework of WTO is shown in the given chart:

Figure 2.2: Framework of WTO



• One permanent member from each member country.	• Dispute Settlement Body (DSB).	• 1st conference at Singapore in Dec. 1996.
• Director General is the highest official, elected by General Council for 4 years. Renatto Rugaro is the present Director General	• Trade Policy Review Body (TPRB).	• 2nd conference at Geneva in May 1998.
• Four Deputy Directors.	• Council for trade 1/1 goods.	• 3rd conference at Seatal (USA) in Dec. 2000.
• Total membership in 148 contributing 98% of world exports at the end of Sept. 2003.	• Council of trade in services.	• 4th conference in Doha (Qatar) in Nov. 2001.
• New members are Hongkong China, Taiwan, Mangolia, Nepal, combodia.	• Council for Trade related aspects of intellectual property rights. (Trips)	• 5th conference at Cancun (Mexico) in Sept. 2003.
		• 6th conference held at Hong Kong in Dec. 2005.

2.4 The Uruguay Round Package: Organization Structure of the WTO

The Uruguay Round began in 1986. It was the most ambitious round to date, hoping to expand the competence of the GATT to important new areas such as services, capital, intellectual property, and agriculture.

Agriculture was essentially exempted from previous agreements as it was given special status in the areas of import quotas and export subsidies, with only mild caveats. However, by the time of the Uruguay round, many countries considered the exception of agriculture to be sufficiently glaring that they refused to sign a new deal without some movement on agricultural products. These fourteen countries came to be known as the "Cairns Group", and included mostly small and medium sized agricultural exporters such as Australia, Brazil, Canada, Indonesia, and New Zealand.

Notes

2.5 WTO – The Third Pillar in the Global Business

The third pillar of WTO policies that negatively affect developing countries is the whole issue of tariffs. When the developing countries signed on to the Agreement in Agriculture, they were assured of market access for their agricultural products in developed countries. But because of tariff peaks and tariff escalations—and in spite of developed countries having fulfilled their commitments on tariff reductions—market access has not been achieved. In the coming round of negotiations, this will remain one major issue: how to ensure actual tariff reductions and do away with tariff peaks and tariff escalations, so that products of export interest to developing countries can gain entry to developed-country markets.

Tariffs are very often known to exporters who can perhaps plan accordingly. But non-tariff barriers, in the WTO parlance, have affected developing country exports even more negatively than tariffs. Each non-tariff barrier could be the focus of a lot of discussion. But suffice it to say that a lot of these non-tariff barriers go against the very grain of the public pronouncements that these countries make about globalization and liberalization, as well as against the context of a new round. It is exactly these non-tariff barriers that are limiting exports from developing countries.

Irrespective of the kind of policies that a lot of northern countries are following, domestic agricultural production and rural incomes do fall in developing countries. And when rural incomes fall and there is a shift away from the traditional agricultural systems, we have reduced access to food. That, in turn, leads to migration from the rural areas.

Self Assessment

Fill in the blanks:

11. Council acts on behalf on the …….. on all of the WTO affairs.
12. ……. is generally by consensus and relative market size is the primary of bargaining power.
13. Third conference was held in Seattle, Washington in ……....…….
14. Sixth WTO Conference Ministerial was held in Hong Kong from …….

Case Study

Business in China

From 1949 to 1979 China had a nearly autarkic economy and prohibited foreign investment and restricted foreign trade. Although its brand of communism stressed isolationism, China's policy also reflected its historical belief that contact with foreigners tended to corrupt its politics and harm its culture. However, fearing that it was falling farther behind other countries economically, China enacted the Law on Joint Ventures using Chinese and Foreign Investment in 1979. Since then, China has experienced a dramatic rise in FDI. It has become the largest recipient of FDI among all developing countries, and since 1993, it has ranked second to the United States for FDI inflows among all countries. By mid-2002, total FDI in China had exceeded $700 billion and was invested in nearly 400,000 ventures. Japan, Taiwan, and the United States are China's most important sources of FDI.

Contd...

Notes

While China steadily adopted the principles of free trade, it modified its practical aspects. As a rule, China restricted imports and foreign companies found FDI to be a more realistic way to serve the Chinese market. Moreover, while China let foreign investors propose their preferred mode of entry, it applied stringent criteria through an extensive review process. Specifically, the Chinese Ministry of Foreign Trade and Economic Cooperation (MOFTEC) or provincial-level authorities with jurisdiction over certain types of investments reviewed each foreign investment application to determine whether the investment was in the best interest of China, i.e. whether it helped capital formation, promoted exports, created jobs or transferred technology. Chinese officials negotiated with each potential investor to try to improve its potential contributions. The Chinese rejected many proposals that offered insufficient benefits. Foreign companies would endure protracted negotiations (often spanning several years) with Chinese companies and provincial authorities before presenting an application to MOFTEC. The growth of FDI in China in the face of the laborious entry process testified to companies' desire to operate in China. Multinational Enterprises MNEs coveted China's market for several reasons, including:

- ***Market potential:*** China has about 1.3 billion inhabitants. A Monsanto spokesperson summed up this allure by stating, "You just can't look at a market that size and not believe that eventually a lot of goods are going to be sold there. One aspirin tablet a day to each of those guys, and that is a lot of aspirin."
- ***Market performance:*** China's purchasing power has been increasing because of its strong economic growth. This growth has translated into the consumer spending on necessity and luxury products. Economists project that China will soon be the largest economy in the world as measured by its purchasing power.
- ***Infrastructure:*** China is in the process of spending more than $1 trillion on infrastructure projects, including dams, power plants, subway systems, highways and railroads.
- ***Resources:*** China has an immense pool of inexpensive and productive labour as well as rich supplies of petroleum and minerals.
- ***Strategic positioning:*** Many companies see investment in China as a crucial part of a global strategy, particularly given its status as the world's final big growth market. Explained one analyst, "If you want to survive, you have to be global, and China is a part of the global economy."

Over time, the Chinese government has encouraged foreign investment—albeit only in certain sectors of the economy and only subject to evolving constraints. Early on, the Chinese government believed that the superior competitiveness of foreign investors would crush its fledgling domestic firms. Therefore, since the early 1980s, China has provided special economic zones (SEZs) that offered foreign investors preferable tax, tariff, and investment treatment as long as they exported all of their output. These incentives were necessary because the uncertainty of China's political environment made foreign companies wary about investing there.

Foreign companies could also establish joint ventures with Chinese companies to sell to the domestic market. However, the government approved these proposals only if they served a national priority for which China had to seek outside help. Chinese market-serving investments were made to improve an existing Chinese product or industry rather than to launch production of a new product in China. For example, China approved of a number of joint ventures in the petroleum industry because it considered future oil sales a high priority for earning foreign exchange.

Contd...

Notes

Getting permission to operate in China required companies to follow a long and winding road that started with an expression of interest and ended with an extensive review by MOFTEC or provincial authorities. A foreign firm began by finding a Chinese organization to sponsor its application to establish a representative office. The foreign company might then be assigned a Chinese company with which it negotiated. This same Chinese company could negotiate with more than one foreign company to develop the best offer. The same steps applied to a wholly-owned investment; however, the foreign company could deal directly with all authorities rather than have a proposed partner handle the arrangements.

Determining the proper authority depended on the priority of the particular type of investment. For example, provincial officials could approve those business operations that planned to export all output. Further, MOFTEC prioritized industries—those that it encouraged, restricted, or prohibited involvement by foreign companies. The higher the priority, the more likely that approval would be granted at the provincial level. The list of industries was quite detailed and specific. For example, the list applied in 1995 included industries within 18 categories.

Until the mid-1990s, China required most foreign firms to agree to an equity joint venture with a local partner as a precondition to market access. The Chinese government believed that equity joint ventures versus other types of FDI transferred capital, technology and management skills yet did not dilute its own control. Theoretically, a foreign firm could establish a wholly foreign-owned venture in select industries. Such proposals, however, received greater scrutiny from Chinese authorities.

China has steadily increased its dependence on international business. Its trade (imports plus exports) as a percentage of GDP has risen, so too has the number of SEZs. It has gradually permitted wholly foreign-owned ventures. In 1997, such ventures surpassed equity joint ventures for the first time. By 1999, more than half of all foreign investments in China were in the form of wholly foreign-owned ventures. Further, Chinese companies could seek foreign joint venture partners on their own.

China joined the WTO in November 2001. Accession to the WTO required the Chinese government to agree to trade and investment liberalization. China's gradual integration into the WTO will change its economy by opening it to foreign products and firms. China must begin to accept a system of global trading rules—everything from lower tariffs to anti-dumping regulations to removal of rules restricting distribution and retailing as well as penalties for violating trademarks, patents and copyrights.

There are benefits and costs to joining the WTO. Regarding the former, some forecast that China could double its exports by 2005, gain an extra percentage point of economic growth for the next decade, and double its FDI stock within the next five years. Regarding drawbacks, WTO membership requires the Chinese government to reform many business institutions and market practices. Some Chinese oppose such changes. For example, five independent bombings hit the operations of Western multinationals that were patronized by affluent Chinese, such as McDonald's, right after China joined the WTO.

Foreign firms welcome the changes required by the WTO. Foreign-invested enterprises make nearly half of all China's exports and three-quarters of its manufactured goods. A boost in exports directly benefits these firms. Operationally, WTO regulations give foreign firms the option to set up wholesale, retail, distribution, and after-sale networks in China. Similarly, foreign firms no longer must comply with local content requirements, deal with the previously high tariffs on imports, or submit investment proposals that

Contd...

Notes

involve technology transfers to MOFTEC. Moreover, China has agreed that its many state-owned enterprises will not discriminate against foreigners and that commercial considerations must apply when purchasing goods or services. Because trade and investment among WTO members must abide by a specified set of enforceable rules, the Chinese business environment should become more stable.

It remains to be seen how China interprets and enforces its WTO commitments. China joined the WTO as a developing country, thereby gaining the right to comply with WTO regulations over several years. For example, Chinese import tariffs on automobiles, which in 2002 were slashed to between 44 and 51 percent (depending on the engine size), fell to 25 percent by mid-2006. Moreover, the Chinese government's system of import quotas and licenses for automobiles did not phase out until 2006. Still, MNEs are optimistic about the wisdom of investing in China. Some noted that China's agreement when it joined the WTO reduced its political, legal, and economic risks to MNEs.

WTO membership seemed to be the latest step in China's long march towards an open market economy. This march began in the spring of 1992, when veteran leader Deng Xiaoping, during his "southern tour," reiterated China's commitment to both an open-door policy and movement to a market economy. The 15th Communist Party Congress in 1997 marked the start of a new phase of market reform with its promise to transform the country's economic and business structure. In 1998, the Communist Party removed ideological barriers to private ownership by amending the state constitution to acknowledge the private sector. In 2001, President Jiang Zemin called the Communist Party to allow entrepreneurs and business executives to join it, thereby legitimizing the idea of private enterprise. Noted one observer, this proposal "basically turns the Party on its head. It means the Party will once and for all put aside all ideological reservations towards growing a private sector in China."

The contest between market economics and ideological legacies in China will play out over many years. During this time, foreign investors will play an increasingly prominent role in a country that historically has been wary of foreigners. Indeed, large segments of Chinese society are less than enchanted by an open market economy, growing exposure to foreign cultures and increasing interdependence with other countries. This situation creates many challenges for managers. If history is any guide, the Chinese government's outlook on investments by foreign companies will largely influence success.

Questions

1. Profile the evolution of the Chinese business environment. Does this evolution strike you as predictable or unpredictable? Why would its degree of predictability matter to foreign investors?
2. Do you think the benefits of operating in China outweigh the risks?
3. What would you advise a company to do to maximize its rewards and to limits its risks?
4. Is it reasonable to expect China to adopt and fully enforce WTO regulations, particularly regarding intellectual property rights, in the next few years? If it chooses not to do so, what options would companies have to protect their interests?
5. How do you think the contest between market economics and ideological legacies will play out in China over the next ten years?

Source: Raj Kumar, *International Business Environment*, Excel Books.

Notes

2.6 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- The effect of tariff is to raise the cost of imported products and the consumers loose because they have to pay more for imports.
- By lowering costs, subsidies help domestic producers to compete against low-cost foreign imports and to gain export markets.
- An import quota is a direct restriction imposed by an importing country on the quantity of some good that may be imported. A voluntary export restraint is a quota on trade-imposed from the exporting country's side.
- A local content requirement calls for some specific fraction of a good to be produced domestically.
- An administrative policy is an informal instrument or bureaucratic rule that can be used to restrict imports and boost exports.
- There are two types of arguments for government intervention in international trade: political and economic. Political arguments for intervention are concerned with protecting the interests of certain groups, or with promoting goals with regard to foreign policy, human rights, consumer protection, and the like. Economic arguments for intervention are about boosting the overall wealth of a nation.
- The problems with strategic trade policy are two fold: (a) such a policy may invite retaliation, in which case all will loose, and (b) strategic trade policy may be captured by special interest groups, which will distort it to their own ends.
- The GATT was a product of the post-war free trade movement. The GATT was successful in lowering trade barriers on manufactured goods and commodities. The move towards greater free trade under the GATT appeared to stimulate economic growth.
- The completion of the Uruguay Round of GATT talks and establishment of the World Trade Organization have strengthened the world trading system by extending GATT rules to services, increasing protection for intellectual property, reducing agricultural subsidies, and enhancing monitoring and enforcement mechanisms.
- The theory of economic integration refers to the commercial policy of discriminatively reducing or eliminating trade barriers only among the nations joining together.

2.7 Keywords

General Agreements on Tariffs and Trade (GATT): International treaty that committed signatories to lowering barriers to the free flow of goods across national borders and led to the WTO.

Non-tariff Barriers: Non-tariff barriers are restrictions arising from measures such as licensing, product testing, certifications, procedural hurdles, etc.

Quota Restrictions: Quota restrictions mean explicit limit (usually measured by volume or sometime by value) on the amount of a particular product that can be imported or exported during a specified time period.

Tariff Barriers: Tariffs were originally intended to raise revenues for the government. However, they are now commonly used as a form of protectionism-to restrict imports to protect domestic industry or to restrict exports to preserve national endowments.

Notes

World Trade Organization (WTO): The organization that succeeded the General Agreement on Tariffs and Trade (GATT) as a result of the successful completion of the Uruguay round of GATT negotiations.

2.8 Review Questions

1. What do you understood by Trade Blocks? Explain the purpose and various types of trading blocks.
2. Whose interests should be the paramount concern of government trade policy – the interests of the producers (businesses and their employees) or those of consumers?
3. Describe the organization structure of WTO. Explain WTO's role in liberalization of global trade in goods and services.
4. What do the terms "Observer Governments" and "WTO Accession" means?
5. Describe the limitation of GATT and how Dunkel's proposals led to the formation of WTO.
6. What was the outcome of the first two ministerial meetings of the WTO and the reasons responsible for the failure of the third meeting?
7. Analyze the role of India in WTO.
8. Discuss how the MFN clause resulted in dumping and the anti-dumping measures imposed by member countries.
9. Can you describe WTO: what it is and what it does?

Answers: Self Assessment

1.	WTO	2.	Trade work
3.	Predictability	4.	Nations
5.	welfare	6.	Fourth Ministerial Conference
7.	conference	8.	Singapore
9.	Third	10.	International Labour Organisation (ILO)
11.	Ministerial Council	12.	Decision-making
13.	1999	14.	December 13–December 18, 2005

2.9 Further Readings

Books

Charles W.L. Hill, *International Business Competing in the Global Marketplace*, 4th Edition, Tata McGraw Hill, Publishing Company Limited.

Cherenilan Francis, *International Economics*, 4th Edition, Tata McGraw-Hill Publishing Company Limited.

Online link

eHow.com http://www.ehow.com/info_7779251_export-development.html#ixzz29oVY7IOm

Notes

Unit 3: Political Environment of International Marketing

CONTENTS

Objectives

Introduction

3.1 Scope

3.2 Types of Government

3.2.1 Political Systems

3.2.2 Economic Systems

3.3 Political Risk Analysis

3.4 Management and Measurement of Political Risk

3.4.1 Privatisation, Insurance: Political, Private and Government

3.5 Super-national Organisations and International Institutions

3.5.1 International Monetary Fund (IMF)

3.5.2 The World Bank

3.6 Summary

3.7 Keywords

3.8 Review Questions

3.9 Further Readings

Objectives

After studying this unit, you will be able to:

- Describe the types of governments prevalent in world economies.
- Distinguish between the political and economic systems.
- Carry out the political risk analysis in an environment which is infested by a large number of political parties not in tune with each other.
- Find out the causes of retardation of economic growth of a country in case there is political instability due to insurgency and threat of terrorism.
- Get detailed information regarding the international institutions affecting political environment of a country.

Introduction

International marketing operations are affected by the varying political environments that exist around the world. An effective manager needs to be fully aware of the circumstances they are getting themselves and their organisation into when approaching foreign markets.

Before attempting to enter into a new market, managers should take the time to carefully observe the political environment from a distance. Political environments can be highly volatile

and can change significantly in a short period of time, so it is vital that you commit a reasonable amount of time to ensuring that know what to expect from the market.

Ideally, you will be looking at entering a market that is politically secure and stable. However, often emerging markets that present significant business opportunities feature governments that are far from stable. You need to carefully weigh up the potential for problems that could adversely affect your business with the opportunities that the market presents before implementing any sort of marketing plan.

Political risk is the risk of loss that occurs as a direct result of the actions of a government or changes in the political structure in a particular country. The level of political risk varies depending on the past history and consistency of a country. In most cases, organisations should try to avoid engaging in business in nations that are considered to have a high level of political risk.

Notes The biggest contributor to political risk is the potential for nationwide conflict, war or violent change.

If conflict broke out in a country you were operating in, you would need to be prepared to deal with violence directed at your property and employee's. Conflict is also likely to have a significant negative impact on your customer base and sales potential.

3.1 Scope

Majority of the MNCs have to face complex political environmental problems because they must cope with the politics of more than one nation. That complexity forces MNCs to consider three types of political environment: foreign, domestic and international.

The developing countries and the least developed countries (LDCs) often view foreign firms and foreign capital investment with distrust and even resentment, owing primarily to a concern over potential foreign exploitation of local natural resources. Dependency Theory explains why Latin American countries are reluctant to welcome foreign-based MNCs. According to this theory, the ongoing economic, political and social transformations have made it necessary for Latin America to rely on the capitalistic system. Similarly, the parties which are inclined to the leftist thinking and swadeshis (indigenous usage thinking) are also reluctant to encourage MNCs to participate in the development of Indian industries in a big way fearing that they are able to extract surplus value from their less developed environment, thus, leaving them underdeveloped while perpetuating the existence of class conflicts and oppressive governments. However, MNCs should be allowed to operate in the highly technological sectors in which the countries have no know-how and Research & Development.

Did u know? Developed countries are also quite concerned about foreign direct investments.

Many Americans have expressed their concern that the increasing foreign ownership of American assets poses a threat to their country's national security both politically and economically. The inflow of foreign capital adds to the domestic capital stock. This activity contributes to the country's standard of living and enhances the country's ability to service its international indebtedness. As a result, the benefits of foreign investment outweigh the costs.

In some cases, the opposition to imported goods and foreign investments is based on moral principles.

Notes

Example: The citizens of many nations pressurise the companies of their countries not to invest in South Africa because of that country's apartheid policy. Arabian countries, even now, do not participate in joint ventures in Israel because of their anti-Muslim policies.

Regardless of whether the politics is foreign, domestic or international, the companies should keep in mind that political climate does not remain stationary.

Example: There had been a hostile climate in America against China in 1980s but now the reverse has happened.

After decades as bitter enemies, both countries became very much interested in improving their political and economic ties so as to dilute the power of the erstwhile Soviet Union. Right from the partition between India and Pakistan, both the countries have fought three wars and the relations are strained to the extent of even using nuclear power in case of extreme emergencies. Now, with the movement of Bus from Delhi to Lahore and back in which both the prime ministers will be travelling, the tension seems to have been reduced and there is likelihood that both the countries will have a common nuclear programme and also sign a no-war pact in the near future.

Companies can derive positive economic benefits when the relationship between two countries improves or when the host government adopts a new investment policy. As in the case of India, the country was a highly regulated, closed economy, which discouraged foreign direct investment. It was only in 1991 that a new government began the reform programme, which could transform India into one of the world's most dynamic economies.

On the other hand, serious problems can develop when the political condition deteriorates. A favourable investment climate can disappear overnight.

Example: The United States withdrew Chile's duty free trade status because of Chile's failure to take "steps to afford internationally recognised worker rights". Chile, thus, joined Romania, Nicaragua and Paraguay being suspended from the Generalised System of Preferences (GSP).

The economic sanctions imposed by America, Japan and other European countries on India and Pakistan after they had exploded the nuclear devices are again unjustifiable. Prior to the explosions, both the countries, especially Pakistan, had very cordial economic and military relations with USA. Pakistan's economy is at the lowest ebb under the present sanctions.

3.2 Types of Government

There are two types of government system as follows:

3.2.1 Political Systems

In order to appraise the political environment of a country, the knowledge of the form of government of that country is essential. Basically, the government can be classified into two categories – parliamentary (open) or absolutist (closed). In the parliamentary form of government, the citizens are supposed to be consulted from time to time for learning about their opinions and preferences. In this type of government the policies are thus intended to reflect the desire of the majority segment of society. Most of the industrialised nations and democratic countries can be classified as parliamentary.

Notes

The absolutist governments include monarchies and dictatorships. In the absolutist system, the ruling regime dictates government policies without considering citizens' needs or opinions. It has been observed that absolutist countries are mostly newly formed nations or those undergoing some kind of political transformation. Absolute monarchies are now relatively rare. The United Kingdom is a good example of a constitutional hereditary monarchy. Despite the monarch, the government is still classified as parliamentary.

Political system of many countries does not fall neatly into these two categories. Some monarchies and dictatorships like Saudi Arabia and North Korea have parliamentary elections. The erstwhile Soviet Union had elections and mandatory voting but was not classified as parliamentary because the ruling party never allowed any alternative on the ballot. Countries such as the Philippines under Marcos and Nicaragua under Somoza held elections but the results were suspect because of the government's involvement in fraud.

At the international political level, the governments can be classified in a number of ways. However, the best way to classify the government is through the political parties. The classification could be based on four types of governments (i) Two party, (ii) Multiple party, (iii) Single party, and (iv) Dominated by one party.

In a two party system, there are mainly two parties that control the government, turn by turn, whichsoever in a majority and the other parties are also allowed to support any one of the two parties.

Example: The classic examples are the United States and the United Kingdom. Both the parties have different philosophies, which change the government policy when one of the parties is elected to form the government. In the United States, the Republican Party represents the business community whereas the Democratic Party represents the labour as well as economically poor society's interest. In the UK, the Republican Party is viewed as the representative of the trading community whereas labour party is often viewed as representing the labour cause as well as economically weaker society's interest.

In a multi party system, there are a large number of parties; however, none of them are strong enough to gain control of the government. There have been cases when the larger parties, in spite of having a thin majority, cannot control the government because it needs support from other parties. The government, in this case, can only be formed through coalition of like-minded parties each one of which would like to protect its own interest. The coalition government largely depends upon the cooperation of its allies. There have been instances when the governments have fallen because one of the parties in the coalition government withdrew its support. A change in a few votes may be sufficient to bring the coalition government down. In such cases fresh elections are called for. The classic example of such a government is India where Bharatiya Janata Party is the ruling party and its coalition partners, more than 23, are different parties from different states. The other countries operating with this type of system include Germany, France, and Israel and so on.

In a single party system, there may be a number of parties functioning in a country, however, one party has so much of majority that there is very little opportunity for others to elect representatives to govern the country. India is again a classic example of single party rule after independence and after the formulation of the constitution in 1952. It was the Indian National Congress that ruled the country, being the single largest party, till 1982. Subsequently, there was a mixture of coalition governments, which could not complete their 5 years tenure. Egypt has operated under single party rule for more than 3 decades. This type of government generally operates in countries which are in the early stages of development of a parliamentary system and is considered to be more stable than coalition governments. The drawback is that the decisions are taken by a single party subjugating some of the sections of society, which creates

Notes

dissatisfaction among citizens. The Institutional Revolution Party (IRP) had ruled Mexico since its revolution but economic problems caused dissatisfaction among the citizens, as a result of which the opposition gained ground for shadowing the transition of the single party system.

In a dominated one party system, the dominant party does not allow any opposition resulting in no alternative for the people. In contrast, a single party system does allow some opposition parties. The former Soviet Union, Cuba and Libya are good examples of dominated one party system. Such a system tends to easily transform itself into dictatorship. In order to maintain its power, a single dominated party may use force or any necessary means to eliminate the introduction and growth of other parties. China is another example of single dominated party.

The economy of a country depends upon the political stability of that country. South Africa, which is a developed nation, has been suffering with internal and external problems, which resulted in poor economic development. Italy is another politically unstable developed country. Its political atmosphere is marred by weak economy, recurring labour unrest and internal dissension. In contrast, Vietnam, despite being a developing country, is politically more stable than Italy. This stability is due to Vietnam's relatively closed society.

Did u know? Democratic political system is a pre requisite for political stability also.

India, the largest democracy in the world, possesses a sound political infrastructure and political institutions that have withstood many crises over the years. The democratic system is so strongly embedded in India that it is almost inconceivable and impossible that Indians will choose any other system. Yet regional, ethnic, language, religion and economic problems hamper India's political stability. In other democratic nations like Australia, such problems have been resolved but India's difficulty still remains. These geographic, ideological and ethnic problems inhibit the government's ability to respond to any one sector's demands.

Dictatorial systems, monarchies and oligarchies may be able to provide great stability for a country but when a ruler dies suddenly, the risk of widespread disruption and revolution can be very high.

3.2.2 Economic Systems

Classification of government based on economic system can be another basis of its types. In the economic systems, the basis explains whether business is privately owned or government owned or whether there is a combination of private and government ownership. Basically, there are three economic systems that have been identified as the basis for classification of government: communism, socialism and capitalism.

A socialist government owns and operates the basic major industries but leaves small business to private ownership. Communist theory holds that all resources should be owned and shared by all the people (not by profit seeking enterprises) for the benefit of the society. In actual practice, it is the government that controls all productive resources and industries and as a result the government determines jobs, production, price, education and just about anything else. The emphasis is on human welfare. Profit making is not the government's main motive; hence, there is a lack of incentive for the workers and managers to improve productivity.

Centrally planned economies are often used to refer to the former Soviet Union, East European countries, China, Vietnam and North Korea. These economies tend to have a number of characteristics – a communist philosophy, an active government role in economic planning, a non-market economy, a weak economy, large foreign debt and rigid and bureaucratic political/ economic systems. In this context, the example of North Korea and South Korea, which gives a contrast between these two countries, is quite striking. While North Korea's economy is shrinking,

Notes

South Korea's economy is booming. South Korea's GDP of $289 billion dwarfs North Korea's GDP of $20 billion. North Korea's export of $935 million is no match for South Korea's exports of $81 billion. It should be noted that North Korea is much better endowed with than its southern counterpart in terms of natural resources.

Despite communist countries' preoccupation with control of industries, all the communist governments are not alike. Although the former Soviet Union and China adhere to the same basic ideology, there was marked difference between these two largest communist giants. China has been experimenting with a new type of communism by allowing its citizens to work for them and to keep any profit in the process by unleashing the largest labour force in the world. Chinese leader Xiao Ping earned the distinction of 'Man of the Year' by Time magazine in 1985. One must remember that free markets can exist in China only with the state's permission and the operations of such markets are still overseen by government officials. China's economic system has been termed as frontier capitalism by Business Week.

The degree of government control under socialism is somewhat less than under communism. A socialist government owns and operates the basic major industries but leaves small business to private ownership. Socialism is a matter of degree and not all the socialist countries are the same. Earlier, a socialist country like Poland used to lean towards communism, which is evidenced by its rigid control over prices and distribution system. France's socialist system, in comparison, is much closer to capitalism than it is to communism. At one time, Sweden was a role model of what socialism could be but a middle road between communism and socialism could produce stalled economic growth. Sweden's economic decline is partly due to rapid expansion in regulations and in the rising share of national income spent by central and local governments, which changed from 45% during the early 1960s to 67% in 1986.

The philosophy of capitalism provides for a free market system that allows business, competition and freedom of choice for both consumers and companies in a market oriented system in which individuals, motivated by private gain, are allowed to produce goods or services for public consumption under competitive conditions. Product price is determined by demand and supply. This system serves the needs of society by encouraging decentralised decision-making, risk taking and innovation. The results include product variety, product quality, efficiency and relatively lower prices.

When compared with other two economic systems, there are degrees of capitalism. Japan, when compared to United States, is relatively less capitalistic although practically all Japanese business are privately owned, industries are very closely supervised by the state. Japan has the MITI and other government agencies that vigorously advise companies on what to produce, buy and sell. Japan's aim is to allocate scarce resources in such a way as to efficiently produce those products that have the best potential for the country.

Schandler examined the 200 largest companies in United States, Britain and Germany from the 1880s through 1940s and found that capitalism took different forms in each country. It was "managerial capitalism" in the United States where managers with little ownership ran companies and competed fiercely for markets and products. In Britain, "personal capitalism" took place as owners managed their companies. In Germany, it was "cooperative capitalism" where professional managers and companies were urged to share markets and profit among themselves.

No nation operates under pure communism or pure capitalism and most countries find it necessary to make some compromise between the two extremes. Even Eastern bloc countries provide incentives for their image building. China allows farmers to sell directly to consumers in the local markets. Western European countries encourage free enterprise but intervene to provide support and subsidies to steel and farm products. The United States is also not a perfect model of capitalism. It has a support price for many dairy and farm products and has imposed price controls from time to time. The International Monetary Fund carried out a survey on 29th July, 1991 of selected East European countries and gave an overview of reforms carried out by them (Table 3.1).

Notes

Table 3.1: Overview of Reforms

	Bulgaria	Czechoslovakia	Hungary	Poland	Romania	Yugoslavia
Price reform	All prices except those freed in Feb. 1991	Prices freed in sector believed to be competitive	Domestic pricing freed since 1988. More than 92% now free	Most price restrictions ended Jan. 1990. 10% of prices now controlled	Most prices still controlled	75% of price freed by Dec. 1989
Privatisation	Planning to privatise state firms. No time-table set	Started privatising small businesses. Foreigners can bid only if citizens don't buy	National Property Agency set up. 130 of 3,000 salable firms privatised in 1990	8,000 firms to be privatised. Eight sold so far. Foreign share limited to 10% without permission	Privatisation bill sent to Parliament. Plans to privatise 50% of capital stock of economy over 3 years	Ownership issue difficult because of decentralised nature of worker self-management system
Foreign trade	As of Jan. 1989, all firms free to conduct foreign trade. Decree of Feb. 1990 liberalised importation of all goods. 300% duty imposed on all exports except art	As of Feb. 1991, exporters of goods in short supply must have licenses, as must importers of petroleum products and munitions	90% of imports free from control	No restrictions on imports. Export restrictions on 15 items accounting for 1% of total exports	All citizens and foreigners can now conduct hard currency trade	All public and private firms can conduct foreign trade. 87% of imports free from restriction as of Feb. 1990. Tariffs low, uniform; quota restrictions on some imports
Convertibility	Importation and exportation of leva prohibited (non convertible)	Liberalised in 1991, but local currency not necessarily convertible	Net export earnings held until year-end in front accounts with National Bank	Resident convertibility for current transactions. Profit repatriation limited; use of net hard currency earnings controlled	Started phased transition to convertibility	Convertibility for commercial transactions since Dec. 1989. Government suspended convertibility into US$ for repatriation at end of 1990
Exchange rate policy	Since Feb. 3,1991, leva has floated. Rates agreed daily by commercial banks and clients posted by National Bank on following day. One rate for all types of transactions	Crown fixed against US$ subject to periodic adjustment. In Dec. 1990, devalued 17% to 28 crowns/US$1. One rate for all types of transactions	Front is fixed against a basket of currencies, subject to periodic adjustments	In Jan. 1990, zloty devalued from Zl 6,000/US$1 to Zl 9,500/US$1, bringing official rate in line with street rate, legalised at same time. Exchange rate set against US$ for all kinds of transactions	In Feb. 1991, dual exchange rate system introduced. In Nov. 1990, leu devalued to leu 35/US$1, Devalued on Apr.1, 1991 to leu 60/US$1	Dinar pegged to deutsche mark subject to periodic adjustments. Rate of Din 7/DM 1 set Jan. 1990, revised to Din 9/DM 1 in 1991 for all transactions

Source: P. K. Vasudeva, *International Marketing*, Excel Books.

Self Assessment

Notes

Fill in the blanks:

1. The degree of ..... control under socialism is somewhat less than under communism.
2. In a dominated ..... system, the dominant party does not allow any opposition resulting in no alternative for the people.
3. Majority of the MNCs have to face complex political ..... problems because they must cope with the politics of more than one nation.

Caselet

Political System

The biggest threat that India is facing today is the slow economic growth because of two great factors. First, terrorism from across the border in Jammu and Kashmir and other parts of the country which is dissuading the MNCs for foreign direct investment into the country. Second, poor labour legislation. Unless higher and fire system in the labour legislation is brought, foreign companies will not like to come to India for investments. The greatest risk that any foreign company faces today is the instability of a government due to terrorism in the country. Though the government is stable in the country and is running smoothly and efficiently, however, the threat of terrorism is making the MNCs to avoid investing in a big way. It is, therefore, essential that terrorism is curbed at all levels for which the government must go all out to ensure the safety and integrity of the people and the property of the country.

India, after 1990, opened its economy to international institutions through modernization, privatization and globalisation. There is hope now that the economic growth of the country will touch 6.5 % of GDP as envisaged by the Reserve Bank of India Annual Report for the year 2003-04.

Source: P. K. Vasudeva, *International Marketing*, Excel Books.

3.3 Political Risk Analysis

There are a number of political risks which are to be faced by international marketers. The risks, which the marketers face from the host government, are – confiscation, expropriation, nationalisation, domestication and creeping expropriation. Such actions are more likely to be levied against foreign investments though local firms are not totally immune.

Example: Charles de Gaulle nationalised France's three largest banks in 1945 and more nationalisation occurred in 1982 under the French socialists.

Confiscation is the process of a government's taking ownership of a property without compensation.

Example: The Chinese government seized American property after the Chinese communists took power in 1949. Occidental Petroleum Company, wanted the United States to review Venezuela's GSP eligibility after the country confiscated the company's assets without compensation.

Notes

Notes Expropriation differs from confiscation in that there is some compensation though not necessarily just compensation. More often than not, a company whose property is being expropriated agrees to sell its operations – not by choice but rather because of some explicit or implied coercion.

Nationalisation involves government ownership and it is the government that operates the business being taken over. Myanmar's foreign trade, for example, is completely nationalised. Generally this action affects the whole industry rather than just a single company. Mexico attempted to control its debt problem. President Jose Lopez Portillo nationalised the country's banking system. In another case of nationalisation, Libya's Col. Gaddafi's vision of Islamic socialism led him to nationalise all private business in 1981. India nationalised its banking, transportation and insurance industries in 70s.

In domestication, foreign companies relinquish control and ownership either completely or partially to the nationals. The result is that private entities are allowed to operate the confiscated or expropriated properties. The French government, after finding out that the state was not sufficiently proficient to run the banking business, developed a plan to sell 36 French banks.

Domestication may sometimes be a voluntary act that takes place in the absence of confiscation or nationalisation. Usually, the causes of this action are either poor economic performance or social pressures. When situations worsened in South Africa and political pressures mounted at home, Pepsi sold its South African bottling operations to local people and Coca-Cola signaled that it would give control to a local company.

General instability risk is related to the uncertainty about the future viability of a host country's political system. The Iranian revolution that overthrew Shah of Iran is an example of this kind of risk. In contrast, ownership/controlled risk is related to the possibility that the host government might take action (expropriation) to restrict an investor's ownership and control of a subsidiary in that host country.

Operation risk proceeds from the uncertainty that a host government might constrain the investor's business operations in all areas including production, marketing and finance. Finally, transfer risk applies to any future acts by a host government that might constrain the ability of a subsidiary to transfer payments, capital, or profits out of the host country back to the parent firm.

The 70s were the peak period for expropriation activities. The number of expropriation acts peaked at 83 involving 28 countries in 1975 representing 14.4% of all such acts (574) which took place between 1960 and 1992. Based on 1980 and 1992 data, expropriation is unlikely in future.

Indicators of Political Instability

In order to assess a potential marketing environment, a company should identify and evaluate the relevant indicators of political difficulty. The sources of political instability include social unrest, the attitude of nationals and the policies of the host government.

Social unrest is a social disorder that is caused by such underlying conditions as economic hardship, internal dissension and insurgency and ideological, religious, racial and cultural differences. Lebanon has experienced conflict among Christians, Muslims and other religious groups. The Hindu Muslim conflict in India is another example of social unrest. Though a company may not be directly involved in the local disputes, yet its business can still be severally disrupted by such conflicts.

Human nature involves monostary (the urge to stand alone) as well as systems (the urge to stand together) and the two concepts provide alternative ways of utilising resources to meet a

society's needs. Monostary encourages competition but systems emphasize cooperation. As explained by Alderson, "A cooperative society tends to be a closed society. Closure is essential if the group is in some sense to act as one". China, although wanting to modernise its economy, does not fully embrace an open economy, which is likely to encourage dissension among various groups. For the sake of its own survival, a cooperative society may have to obstruct the dissemination of new ideas and neutralise an external group that poses a threat. China apparently has learnt a lesson from the Soviet Union's experience.

A liberated political climate can easily lead to a call of the long suppressed national minority group for cultural and territorial independence. The group's conflicts, unsettled but subdued during the communist period, are likely to escalate. Three kinds of conflicts may occur. First, a domestic dispute may escalate into violence that is confined within the boundaries of the country in question. The civil war that started in 1991 between Serbs and Croats in Yugoslavia is a classic example of this. Another example is the centuries old ethnic animosity between Christian Armenia and Muslims neighbouring Azharbizan, which led some 600 Armenian nationalists to clash with Soviet soldiers during earth quake rescue operations in Armenia. Second, an internal dispute may draw interested parties outside the country in question into the conflict.

Example: Problems in Yugoslavian Macedonia may force Bulgaria and Greece to intervene.

Finally, the third form of conflict resulting either from first two kinds of conflicts or from international dispute may lead to a direct confrontation between the two countries. Romania and Hungary, who have deep-rooted grievances against each other, could become involved in this form of conflict. India and Pakistan are also deeply involved in this form of conflict though the main cause is the Kashmir problem.

Attitudes of Nationals

An assessment of the political climate is not complete without an investigation of the attitudes of the citizens and government of the host country. The nationals' attitude towards foreign enterprises and citizens can be inhospitable. Nationals are often concerned with foreigners' intentions with regard to exploitation and colonialism, and these concerns are often linked to concerns over foreign governments' actions that may be seen as improper. Such attitudes may arise out of local socialist or nationalist philosophies, which may be in conflict with policy of the company's home country government. The governments may come and go, but citizens' hostility may remain.

Example: 12 US firms decided to leave El Salvador in 1980s.

Policies of the Host Government

Unlike citizens' inherent hostility, the government's attitude towards foreigners is often relatively short-lived. The mood can change either with time or change in leadership and it can change for either the better or the worse. The impact of change in mood can be quite dramatic especially in the short run.

Government policy formulation can affect business operations either internally or externally. The effect is internal when the policy regulates the firm's operations within the home country. The effect is external when the policy regulates the firm's activities in another country.

Example: An internal policy is Quebec's Bill 101. The Bill requires all business to be conducted entirely in French and dictates where the investments of insurance and trust companies

Notes

will be placed. When this Bill was passed, the reaction was a massive capital flight of some $ 57 billion. One major investment company alone moved in $90.2 billion portfolio from Montreal to Ottawa.

Although an external government policy is irrelevant to firms' doing business only in one country, such a policy can create complex problems for firms doing business in countries that are in conflict with each other. A company in one country, for example, may be prohibited from doing business with other countries that are viewed as hostile. A dispute over the boundary between Chile and Argentina prompted Argentina to restrict traditional exports to Chile including petro-chemicals, pharmaceuticals, vehicles and vehicle parts. The restriction disrupted the marketing plans of General Motors, Peugeot and Renault all of which supplied Chile with automobile parts from Argentina plants. Similarly, India and Pakistan have restricted their export-import because of the long outstanding Kashmir boundary dispute between the two countries.

The use of unfriendly rhetoric before an election may be nothing but a smoke screen and the 'bark' will not necessarily be followed by a 'bite'. Companies need not take drastic action if they are able to endure through the election. Ronald Reagan, an advocate of free trade, became much more of a protectionist just before his election in 1984. After the election, a policy of free trade was reinstituted.

The experience of Enron Corporation with the $ 2.8 billion Dhabol project in India is an example of this nature. In 1992, Enron and Prime Minister Narsimha Rao's reformist government quickly signed memoranda of understanding to build the massive power complex in Maharashtra. Having no domestic partner, the deal's secrecy coupled with company's efforts to keep the details confidential, the lack of competitive bidding, government loans guarantee and a high rate of return (23%) all contributed to a negative public perception. The company failed to seriously consider the sentiment of an opposition coalition led by the Bhartiya Janta Party. The party's 1995 campaign for state election called for a re-evaluation of the 2015 MWDhabol Project. Enron responded by quickly beginning the construction believing that it would become more difficult for a new government to reverse the process. Enron's request that the US Energy Department intervene only invited even more backlash. In the end the project was suspended before being negotiated.

Self Assessment

Fill in the blanks:

4. Government policy formulation can affect ..... either internally or externally.
5. A liberated ..... can easily lead to a call of the long suppressed national minority group for cultural and territorial independence.
6. The experience of Enron Corporation with the $ ..... billion Dhabol project in India is an example of this nature.

3.4 Management and Measurement of Political Risk

To manage political risk, an MNC can pursue the strategy of either avoidance or insurance. Avoidance means screening out politically uncertain countries. In this, measurement and analyses of political risk can be useful. Insurance, in contrast, is a strategy to shift the risk to other parties.

There are other strategies that MNCs can use to safeguard their foreign investments. They may want to come to an understanding with a foreign government, as to their rights and responsibilities. They can increase and maintain their bargaining power when their technical, operational and managerial complexity requirements are not within reach of the host country's abilities.

Notes

In addition, there are several managerial strategies which are relevant. A firm may try to gain "cooperation" through long-term contractual agreements, alliances, interlocking directorates, inter-firm personnel flows, etc. Furthermore, it may pursue product and geographic diversification to gain "flexibility". Also, operational flexibility can be achieved through flexible input sourcing and multinational production.

Caution The rapid changes in Eastern Europe present both challenges and opportunities.

In the earlier days of centralisation, a trade minister in the capital could speak for the entire nation but with decentralised decision making, an MNC has to go to many republics for information and approval. Table 3.2 provides some tips for doing business in East Europe.

Table 3.2 Description of Explanatory Variables

Variables	Motivation	Expected sign
Gross National Product (GNP) per capita	Poorer countries may have less flexibility to reduce consumption than richer countries. Countries with low GNP per capita may thus be able to solve debt service difficulties by implementing austerity programmes.	+
Propensity to invest	This variable captures a country's prospects for future growth. The incentive in default is a decreasing function of the propensity to invest since the cost of default (an embargo on future borrowing or a higher cost of future credit) increases with future outputs.	+
Reserves-to-imports ratio	The larger reserves are relative to imports, the more reserves are available to service external debt the lower is the probability of default.	+
Current account balance on GNP	This variable is negatively related to the probability of default since the current account deficit broadly equals the amount of new financing required.	+
Export growth rate	Since for most countries exports are the main source of foreign exchange earnings, countries with high export growth rates are likely to service debt.	+
Export variability	Traditionally, the literature has argued that countries with volatile exports are more vulnerable to foreign exchange crisis and are less credit worthy. In contrast, Eaton and Gersovitz show that default risk will be smaller, the larger the export fluctuations. The underlying rationale is that countries with more volatile exports are more frequently in need of borrowing to smooth consumption across periods of varying income and are, therefore, incited to maintain a good credit record.	?
Net foreign debt to exports	A country with higher debt foreign net to exports ratio is more vulnerable to foreign exchange crisis and more likely to default.	-
Debt service difficulties – Dummy variables	When a country is known to have asked some of its creditors for debt relief, other creditors are apprehensive of default and the credit rating is likely to fall.	-
Political instability indicator	Aliber shows that political instability can reduce a country's willingness to service debt.	-

Source: International Marketing, Ch-5, P. K. Vasudeva

Notes

3.4.1 Privatisation, Insurance: Political, Private and Government

Privatisation

Privatisation plays an important role both with multinational and local firms because it has a number of competitive implications. It is a well known fact all over the world that government owned firms or public sector enterprises are often characterised by overstaffing, poor financial performance, dependence on subsidies, centralised and politicised organisations and lack of competition. The objectives of privatisation are: promotion of competition and efficiency, reduction of debt and subsidies, return of flight capital and broadening of domestic equity ownership.

Countries, which are likely to pursue privatisation, tend to have the following characteristics: high budget deficit, high foreign debt and high dependence on international agencies such as the World Bank and the International Monetary Fund. In Latin America and Asia, the countries that are pursuing privatisation are those which have overused state enterprises and those in which the private sector is growing faster than average, making them more ready to assume tasks once assigned to the state enterprises. In Africa, however, privatisation may have been imposed by external agencies even though these countries are not necessarily ready for this task.

Governments all over the world have learnt a number of lessons from privatisation. Chile's massive privatisation has a positive effect on well-being, efficiency, capital market development and its divestitures of state owned enterprises do not necessarily have negative distributive and employment effects. In the case of Poland's Swarzedz Furniture Co., it was found that change of ownership was the necessary but not sufficient condition for effective performance.

Policy makers must understand that privatisation is a political process. A successful programme requires economic reforms and it is helpful to sell some shares to managers and workers. The experiences of Nigeria, Senegal and Togo have shown that (i) a country should tailor its privatisation strategy to its circumstances (ii) there must be a support from the highest political level (iii) the fears of lack of potential investors in Africa are exaggerated and (iv) there should be transparency in the privatisation process.

In case of India, centrally planned economy has adopted the bing-bang approach or gradualism in reforming its economy. It has been observed since 1991 that the bing-bang approach did not work whereas with gradual liberalisation for opening up of its economy to the world market and also for foreign direct investments, the results have been fruitful. Therefore, the choice of strategy is dependant on the economy's political circumstances and economic structure. After the Congress government, there has not been a stable government to take advantage of liberalisation. However, no working model exists today for a functioning market economy with massive state enterprise sector.

Insurance: Political, Private and Government

Political Insurance: This can be achieved through risk avoidance and risk reduction. In order to achieve these, MNCs can employ the strategy of risk shifting. Chubb and Lloyd's of London are among a small group of insurers which have long offered policies to cover ransom demands from kidnappers. The coverage has been expanded to include legal and psychiatric fees and compensation for loss of trade secret and product tampering. Some policies may cover costs incurred when evacuating a politically unstable country. Executives may receive training on how to avoid being kidnapped. Political insurance coverage can be obtained from a number of sources. The best source is the confidence of the public in its government.

Notes

Private Insurance: Through ignorance, a large number of companies end up as self-insurers. A better plan would be to follow Club Med's example by shifting political risk to a third party through the purchase of political insurance. Its insurers handsomely compensated NBC, when it had to cancel its telecast of the 1980 Moscow Olympic Games when President Carter prohibited US athletes from participating as a protest against the Soviet Union invasion of Afghanistan.

Although property expropriation seems to be the most common reason for obtaining political insurance, the policy should include coverage for kidnapping, terrorism and creeping expropriation. Information about most companies' coverage of this nature is very scarce because revelation of such coverage would only serve to encourage such activity.

Government Insurance: Multinationals do not have to rely solely on private insurers. There are non-profit, public agencies that can provide essentially the same kind of coverage. For US firms, the two primary ones are Overseas Private Investment Corporation (OPIC) and FCIA. In India, we have United Insurance Company, General Insurance Company and so on. All these companies are business-oriented agencies whose purpose is to support the government's private investment.

These companies provide several forms of assistance with political risk insurance as its primary business. It has three types of insurance protection to cover the risks of (i) currency inconvertibility (ii) expropriation (including creeping expropriation) and (iii) loss on damage caused by war, revolution or insurrection. A typical insurance contract runs upto 20 years at a combined annual premium of 1.5% for all three coverages. Considering that private insurers issue a three year policy, OPIC's coverage is a positive feature.

Motorola Inc. provides a good illustration of how OPIC works. In 1993, Motorola won a bid to install, operate and maintain cellular telephone service in Nicaragua. Nicaragua has a crumbling infrastructure, a very poor landline telephone system and an ailing economy. Motorola's telephone service was one of the biggest private foreign investments in Nicaragua. OPIC provided $ 7 million in financing and $ 8 million in insurance against expropriation and political violence. The assistance was instrumental in the company's decision to enter the Nicaraguan market.

Self Assessment

Fill in the blanks:

7. To manage political risk, an ..... can pursue the strategy of either avoidance or insurance.
8. Multinationals do not have to rely solely on ..... insurers.
9. ..... must understand that privatisation is a political process.
10. In ..... , Motorola won a bid to install, operate and maintain cellular telephone service in Nicaragua.
11. ..... plays an important role both with multinational and local firms because it has a number of competitive implications

3.5 Super-national Organisations and International Institutions

A supranational union is a type of multi-national organization where negotiated power is delegated to an authority by governments of member states. An international organization is an organization with an international membership, scope, or presence. Following are the institution:

Notes

3.5.1 International Monetary Fund (IMF)

The role of the IMF as a super national organisation is being discussed here from the political risk analysis point of view. It is useful to recall that the role of the IMF as a super national organisation has been expanding in recent years with its efforts to coordinate the response of the financial world to the debt crisis and make its own efforts in this regard. The other important role of the IMF is making loans for structural adjustments in economies facing reverse macro economic instability and distortions. There is an increasing emphasis on coordination of lending activities between the IMF and other super national lenders as well as on assessing the social impact of IMF programmes for structural adjustments in developing countries.

3.5.2 The World Bank

The World Bank was created (along with the IMF) at the Bretton Woods Conference in New Hampshire in July 1944 and it officially came into existence on December 27, 1945. The initial objective of the World Bank was to make financial resources available to European countries to rebuild their war shattered economies and later to provide critically needed external financing to developing countries at affordable rates of interest. The creation of the World Bank, together with the IMF, was intended to strengthen the structure and encourage the development and efficiency of international financial markets. The World Bank consists of four main agencies:

- International Bank for Reconstruction and Development (IBRD – World Bank)
- International Development Association (IDA)
- International Financial Corporation (IFC)
- Multilateral Investment Guarantee Agency (MIGA)

International Bank for Reconstruction and Development (IBRD)

The main objective of IBRD is to suggest social and economic development in developing countries by promoting better productivity and utilisation of resources so that their citizens may live a better than fuller life. The World Bank seeks to achieve its objectives by making available financial assistance to developing countries, especially for specific economically sound infrastructural projects, for example, in the areas of power and transport. The basic rationale for the emphasis on such projects is that a good infrastructure is necessary for the developing countries to carry out programmes of social and economic development. In the 1970s, World Bank loans were also given for the development of the social services sectors of borrowing countries – education, water supply and sanitation, housing and so on. The loans were also given for the development of indigenous resources such as oil and natural gas.

In early 1980s, much World Bank lending was policy based, i.e. it had aimed to support economic adjustment measures by borrowing countries particularly those faced with heavy external debt. The use of guarantees is also being considered by the World Bank in order to help member country borrowers to issue securities in the governmental financial markets.

There are five major categories of World Bank loans

1. Specific investment loans are loans made for specific projects in the areas of agriculture and rural development, urban development and energy resources ranging from 5-10 years.
2. Sector operation loans comprise about a third of the World Bank lending and are aimed at financing development of particular sectors of a country's economy such as oil, energy or agriculture.

Notes

3. Structural adjustments and programme loans are targeted at providing the financial support needed by member countries who are undertaking comprehensive institutional and policy reforms to remove imbalances in the external sector.
4. Technical assistance loans are provided to member countries that need to strengthen their technical capacity to plan their development strategies and design and implement specific projects.
5. Emergency reconstruction loans are provided to member countries whose economies especially the infrastructure have experienced sudden and severe damage because of natural disasters such as earthquakes or floods.

International Development Association (IDA)

The IDA was established in 1960 to provide long-term funds at concessional rates to the poorest member countries of the Bank. The affiliate does not have a separate organisational structure and the staff of the World Bank conducts its operations. The President of the World Bank is also the President of IDA. The basic objective of the Association is to provide long-term financing to those member countries that cannot afford to borrow on normal World Bank terms. IDA funds are used to promote long-term, long gestation development projects.

As the member countries grow economically and their per capita income increases beyond a particular level, they graduate from IDA assistance and become eligible for World Bank loans. As on June 30, 1990, IDA had approved $ 35.82 million in financial assistance to member countries. The five recipients of IDA credit are India, Pakistan, Bangladesh, Indonesia and Egypt. India has now improved its economy and hence has been taken out of IDA and made eligible for World Bank loans.

Task Prepare a short report on Measure of Political risks.

International Financial Corporation (IFC)

The IFC was established in 1956 with the objective of promoting the development of private enterprises in member countries. The IFC operates primarily through its own staff, but the Bank's board of executive directors oversees it. The President of World Bank is also the President of IFC.

The IFC makes equity investments and extends loans to private enterprises in developing countries. In accordance with its mandate, the IFC cannot accept government guarantees of its loans. The primary role of the IFC, however, is not providing financial assistance by itself. It serves as a catalyst to promote private capital flows to the private sector in developing countries. The IFC is never the sole financier in any particular transaction, and its contribution is usually a minor proportion of the total mobilised amount. The corporation also does not accept management positions or seats on the board of directors of the organisations to which it lends funds. In addition, the IFC provides financial, technical and legal advice to the investee companies.

Multilateral Investment Guarantee Agency (MIGA)

MIGA was established in 1988 to help its more than hundred member states to create an attractive investment climate. Its mission is to promote private investment in developing countries through insuring investment against non-commercial (political) risk. MIGA works as a coinsurer with all reinsurers of other insurers. It offers four types of coverage: (i) currency transfer

Notes

(ii) expropriation (iii) war and civil disturbances and (iv) breach of contract. Premiums depend on the type of project, type of coverage and project specific conditions. Annual premium for each coverage is in the range of 0.50%-1.52% of the amount insured.

Freeport's McMoran Copper wanted to spend $500 million to expand his copper, gold and silver mining project in Indonesia. The US-German-Indonesian owners of the firm wanted to borrow 75% of the capital from commercial banks in the form of "non-recourse financing". This type of financing relies on cash flow of the project and non-project assets are not pledged because the financing requires a complex problem of the risks and rewards among the leaders, suppliers, buyers and owners. MIGA played a critical role by providing the initial $15 million coverage.

Self Assessment

Fill in the blanks:

12. The ..... was established in 1960 to provide long-term funds at concessional rates to the poorest member countries of the Bank.
13. ..... was established in 1988 to help its more than hundred member states to create an attractive investment climate.
14. The IFC was established in ..... with the objective of promoting the development of private enterprises in member countries.
15. The ..... makes equity investments and extends loans to private enterprises in developing countries.

Case Study

Agenda: The Need for Strategic Planning

Lalit Desai: Good evening, ladies and gentlemen. Let me begin by welcoming our guest speaker for today, Vinod Abhayankar, the CEO of Auto Components, which manufactures the Zebra brand of shock absorbers. Founded by his father, Dhanvantri Abhayankar, in 1984, Auto Components now enjoys the status of being a preferred supplier to many of the Original Equipment Manufacturers (OEMS) in the Indian automobile sector. Vinod will speak about the problems he faced while implementing a strategy-planning process in the company. Vinod…

Vinod Abhayankar: Thanks, Lalit. I always look forward to these meetings of the YPO, which, apart from being the country's only association of young CEOs, provides me with an opportunity to discuss the problems of managing a business. I wish to correct Lalit at the very outset. We haven't implemented strategic planning at Auto Components; we are in the process of doing so. We are still grappling with two questions. First, do we need strategic planning at all? That's surprising since strategy is supposed to be high on every CEO's list of priorities. Second, how should the company formulate a strategy? Should it be based on Auto Components' present position in the industry? Or should we factor in the emergence of new forces in the future – such as technology, scale, and costs – and draw up a strategy in the light of their impact on our operations? I thought I could use this platform as a sounding board, and fine-tune my own approach to strategic planning. Please feel free to interrupt me…

Contd…

Notes

It has been nearly a year since I took over as the CEO of Auto Components. I returned from the US in 1995 where, after completing my MBA, I worked in the Production Planning Division of a transnational. I was looking forward to a promising career, but chucked it in deference to the wishes of my father, who wanted me to return home to take over the family business. As a technocrat, he has spent his life in the automotive sector and decided, in his mid-40s, to set up a company of his own. Auto Components started off as a captive ancillary unit for Sadgati Motors, then a fledgling four-wheeler manufacturer. Our initial capacity of 1 million shock absorbers per annum has grown into 3.20 million units. Incidentally, the total output in the country is 21 million units per annum. However, the growth in the top-line has been erratic. There were years when Auto Components grew by 80 per cent, in others; the company registered a negative rate of growth… Yes?

That is bound to happen when you are a component manufacturer. A feeder unit's fortunes, invariably, move in tandem with those of its OEMs. Is there anything peculiar about the shock absorber market?

Yes, there is. The thing is that there is no replacement market. Not only do most auto-ancillary units fare better than the automotive sector, they are also insulated from recessions because of the after market. Unlike most auto components, whose life is between 2 and 3 years, a shock absorber can last for anything between 6 and 8 years. You can also re-condition a shock absorber – a process that extends the life of the product by at least 2 years. At less than a quarter of the price of a new one, re-conditioning is cheaper than replacement. Of course, although the owners of premium vehicles will not opt for re-conditioning, we do not get volumes there. So, we are fully dependent on the OEM market.

As a manufacturer of shock absorbers, are there any other market segments you can target?

No. Basically, the shock absorber functions as a dampener of shocks resulting from the vertical vibrations of a vehicle. Its function is to absorb the jerks transferred from the wheels to the frames, thus ensuring a comfortable ride. Typically, each shock absorber consists of two oil-chambers. Whenever a vehicle passes over an uneven surface, the movement of piston-rod results in the displacement of oil which leads to the generation of a dampening force. Almost the entire output of shock absorbers produced in the country is used by the automotive industry. Shock absorbers are both technology and capital-intensive – a big barrier for new entrants. Since the specifications are unique to each customer, their design is critical. A shock absorber with only a few moving parts is considered to be better. Importantly, the quality of the raw material – bright bars – is crucial to the production of a quality shock absorber. Again, there is little possibility of the unorganised and small-scale sectors making a beeline for this business because of these factors.

Incidentally, since 1991, we have had collaboration with Sephantu, a Japanese component-manufacturer. We chose Sephantu because it supplies shock absorbers to quite a few Japanese auto majors, some of which have set up operations here. In fact, this collaboration has helped us get new customers since Auto Components enjoys a preferred-supplier partnership with some of them. It has also placed us on a strong wicket as far as our future plans are concerned. It will now be easier for us to become a sourcing-base for both European and Japanese auto majors for their global operations – a possibility that we will examine shortly. I believe that only by becoming a part of the global value-chain can we become competitive.

Let me raise one question that we have frequently asked ourselves in the past 12 months: should we cater to other markets as well? I can cite the example of Sephantu, which has a

Contd...

Notes

capacity of about one billion shock absorbers per annum. It also makes telescopic front forks for two-wheelers, and has a bearings division manufacturing a complete range of bi-metal bearings, flanges, and washers. These bearings cater to the requirements of the railways, the marine, and the power industries. Sephantu looks at them as related diversifications, and sees nothing wrong in focusing on those segments too…

You are now dependent on a solitary end-user industry, but have a captive clientele. All you need to do is to maintain the relationships with your buyers, work closely with them, and be an integral part of their value-chain. I can see your reservations about the need to evolve a strategy at Auto Components…

As Lalit mentioned, Auto Components enjoys a preferred supplier status with 5 leading OEMs in the country. We get technical and financial assistance from our partners. They encourage outsourcing and some of their clients have become global sourcing-centres. We have access to their Total Quality manuals and Management Information Systems, like the Spider Web Charts. It is a symbiotic relationship, and both partners tend to win. When the market is assured, production is predictable, the customer list is captive, and we have a single-product orientation, why do we need to plan 5 years in advance? After all, we will continue to enjoy the benefits of bonding. Auto Components can easily operate through Management by Objectives and annual budgets – as it has been doing in the past. Our planning schedules are linked to the plans of our customers. We don't need a separate strategic planning process at Auto Components…Yes?

It is worthwhile recalling the introduction of the concept of strategic planning in the West. The interest in strategy was caused by the realisation that the external environment was becoming progressively discontinuous with the past. Objectives and annual targets alone were no longer adequate as tools of managerial initiative. Strategy was important because a company needed direction in its search for, and the creation of new opportunities. You had to identify your core strengths as part of developing and business strategy…

Core has little relevance in a business like ours. That is, if you mean a unique attribute which straddles several segments, markets and products. A two-wheeler company would view itself in the transportation business, and a petroleum company would categorise itself as an energy business. But there is no common core capability as far as our single-product business is concerned. There is no common thread I see that can link our present and future product-markets…

I think you are mistaken. Objectives represent the ends that the company seeks to attain. Strategy is the means to achieve those ends. It provides the roadmap…

I thought as much. That is why I took the next step: enlisting the help of an outsider. We short listed 2 consultancy firms, Strategic Consultants, a transnational company, and Transformation Consulting, a local firm, and asked them to submit proposals for formulating a strategy, and to help us implement it at Auto Components. Teams from both the firms have spent several hours with us, and submitted their reports. The contrast in their approach to strategic planning is striking…

How does your father view the need for strategy? After all, he was the one who built the company…

He is sceptical. He feels that strategy is fine for large corporations with diversified interests, but doesn't make much sense for Auto Components. He often says that nothing works better in business than gut feel – his ultimate touchstone. The rest is all frills, serving no more than an ornamental purpose. I am less sceptical and more open to the idea. I feel that it is imperative for us to know where we will be 5 years from now; it will help us work

Contd...

Notes

towards an objective. Once we have identified a goal, we can start building structures, systems, and an organisational framework that will help us achieve that goal. It is crucial to have the big picture. That is where the importance of strategy lies…

Aren't both these consultancy companies well known for their work on strategy?

Yes. Strategic Consultants is headquartered in New York, with 32 offices across the world and over 500 consultants on its pay roll. It enjoys a formidable reputation in strategy formulation. What interested me was the fact that it has done substantial work on the automotive industry and has a senior partner, based in Frankfurt, who focuses exclusively on the auto industry. The distinguishing feature of Strategic Consultants' approach is an underlying belief that strategy must be based on present data – not future trends. It will identify for us those segments, channels, price-points, product-differentiators, selling-propositions, and value-chain configurations that will yield us profits. But the identification is focused strictly within the present framework of the auto components industry. Incidentally, the firm has made it clear that it will not be involved in the implementation process…

I am not very comfortable dealing with a consultant who stays away from implementation. What about the second firm?

The sheet anchor of Transformation Consulting is just the opposite. It believes that the purpose of strategy is not only to enable Auto Components to compete today, but also to ensure that it remains competitive in a fluid market situation. The firm aims at reconfiguration of the auto components sector to the advantage of Auto Components – not just maximising the company's profits.

Both the proposals I have received are well structured and cover a wide canvas although I must mention that the fees quoted by them are quite high for a 3-month project. While Transformation Consulting has quoted ₹ 12 lakh, Strategic Consultants has asked for a fee of ₹ 17 lakh. The former says it will depute a senior partner and 3 associates, one of whom will work full-time on our project. Strategic Consultants will depute a principal and two associates on a part-time basis. But its offer is quite attractive since its partner will be flown in from Frankfurt for all the major discussions…

The fee is, indeed, high. But it isn't a major issue as long as the consultant delivers. My concern is more about the organisational approach of the 2 consultancies…

Strategic Consultants' approach is top-driven. It does not believe in involving employees at different levels in formulating a strategy. It forms a team consisting of 2 senior managers of the company and 2 of its consultants. The team lays down the strategy that, it thinks, is good for the company. That is quite in contrast with Transformation Consulting's approach, which is both top-down and bottom-up. It seems the active involvement of employees, who are asked to define the kind of organisation they want their company to be given, of course, the changes that are expected in the future…

A Strategic Consultant is too focused on the present while Transformation Consulting builds a vision for the future as part of its strategy. The latter's approach is a radical departure from the conventional route to strategy formulation. It is the novelty of the approach that fascinates me…

Permit me to read out the relevant portions from Transformation Consulting's report: "Our methodology comprises 4 phases: Envisioning, External Analysis, Internal Analysis, and Action Plan. These phases will be implemented during the course of 4 separate retreats spread over 3 months at the company's holiday-home at Lonavala (near Mumbai), where all the senior managers of Auto Components will gather…

Contd...

Notes

At the beginning of the one-day session on Envisioning, the lights will be put out in the conference-room for a minute to signify a disconnection with the past. Once the lights re-appear, the designated coordinator from Transformation Consulting will announce that it is 2003. Each manager will then be asked to imagine himself as part of Auto Components in the 21st Century, and talk of what the company will be as he, or she, sees it. Although the exercise will be structured, it will be informal and free flowing to break the ice and loosen up people. Not used to looking beyond day-to-day operations, many managers are likely to fumble. But, at the end of the day, everyone will be comfortable with looking ahead into the future…

External Analysis, spread over the next 3 days, will be more focused. Managers will be asked for their perceptions about the customer, the competitor, and the macro-environment in 2003. They will be required to answer the following questions: who are Auto Components' customers? Are they local or global? What are the specific needs that they expect these products to fulfil? Why do they prefer Auto Components to other manufacturers? The competitor-analysis would seek to probe questions like: who are the Auto Components' competitors? What are their cost advantages? What are their strengths and weaknesses vis-à-vis Auto Components? Why do customers buy these products? What is their brand equity? The analysis will examine the impact of technology, government policies, and cultural and demographic trends on the auto components industry. Mainly, the objective of Phase II will be to arrive at a summary of opportunities and threats for Auto Components in 2003.

Phase III, comprising Internal Analysis, will begin a month later, and will be spread over 4 days. Aimed at enabling managers to look inwards, the Internal Analysis will be split into Performance Analysis and Strategic Options. The performance of the group will be measured both on financial parameters, like profitability, sales and returns on assets, and on non-financial parameters, like supplier relationships, product quality and customer satisfaction. The participants will, then, determine the strategic options available to Auto Components. This would involve reviewing past strategies to identify strategic problems, organisational capabilities and constraints. Based on these findings, a summary of the strengths and weaknesses of the group will be arrived at.

The final part of Phase III will involve defining the core competencies of Auto Components, and updating a statement of vision. The last session will be used to determine the strategic plan to move Auto Components from 1998 to 2003. It will address questions like the core competencies the company should build, the product-market segments that it should focus on, and the buyer-and-supplier linkages it should leverage within the industry…"

There is a difference between the two approaches. Strategic Consultants' gameplan depends solely on the CEO's vision while Transformation Consulting's approach seeks the involvement of senior managers in obtaining a vision…

Transformation Consulting's approach to strategy is different from the conventional time-tested approach in many ways. I, for one, am wary of any approach that is untested. Traditionally, corporate strategic planning has been based on the present position of the company in the industry. There are a number of gray areas in this approach. Take the capsule on Envisioning, for instance. Very few middle-level managers, caught up as they are with routine operational issues, have the ability to look beyond the limited time-horizon of a year. That's my major apprehension…

More fundamentally, I am not sure if strategy formulation can be a bottom-up exercise. A vision, for example, is always driven from the top. It is only when a vision needs to be articulated that the involvement of middle management becomes imperative. But, as far

Contd…

Notes

as envisioning is concerned, it has to be confined to senior management. This raises a second crucial issue: is there a need to document strategy? Personally, I feel that the strategy of a company should not be documented. Only then will it ensure confidentiality. As Strategic Consultants' approach points out, strategy should be confined to a handful at the top. It can never be an across-the-board initiative…

That is the way I feel too. But I am open to both opinions although, I must confess, I am unable to decide on which one to follow. I am aware that some companies link strategy to vision, but this linkage has not been well documented. Strategy should be based on the realities of today; not the dreams of tomorrow. We have to make sure that we do not become the guinea pigs for a strategy-formulation exercise.

Questions

1. Is there a need for a strategy at Auto Components? Does a small company operating in a predictable environment need to formulate one? Can approaches to strategy be so conceptually different?
2. Should Abhayankar go by gut feel and, by using in-house talent, do what he believes is right for the company?
3. Instead of spending time on documenting a strategy, shouldn't Auto Components just have an informal plan of action, governed by the intuition of its senior managers?
4. Since the company has a team which knows its business better than any consultant, why should Auto Components bank on external ideas? Should strategy ever be documented?

Source: P K Vasudeva, *International Marketing*, Excel Books.

3.6 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- Developed countries are also quite concerned about foreign direct investments. For example, the citizens of many nations pressurise the companies of their countries not to invest in South Africa because of that country's apartheid policy.
- Companies can derive positive economic benefits when the relationship between two countries improves or when the host government adopts a new investment policy. As in the case of India, the country was highly regulated, closed economy, which discouraged foreign direct investment.
- In order to appraise the political environment of a country, the knowledge of the form of government of that country is essential. The absolutist governments include monarchies and dictatorships.
- Political system of many countries does not fall neatly into these two categories. This classification results in four types of governments: two party, multi-party, single party and dominated one party.
- In a two party system, there are typically two strong parties that take turns in controlling the government although other parties are also allowed. The United States and United Kingdom are classic examples of two party systems.
- The two parties have generally different philosophies resulting in a change in government policy when one party succeeds the other. In a multi-party system there are several political parties none of which is strong enough to gain control of the government.

Notes

- The strength and the longevity of the coalition government depend largely on cooperation of government allies. Usually, various opposing parties continuously challenge the coalition government.
- The countries operating with this type of system include Germany, France, Israel and India. Present government in India has 18 coalition partners. This form of government is often used by countries which are in early stages of development of a parliamentary system.
- The economy of a country depends upon the political stability of that country. Italy is another politically unstable developed country. Democratic political system is a pre-requisite for political stability also. Classification of government based on economic system can be another basis of its types.
- In the economic systems, the basis explains whether business is privately owned or government owned or whether there is a combination of private and government ownership.

3.7 Keywords

Communist Theory: This theory holds that all resources should be owned and shared by all the people (not by profit seeking enterprises) for the benefit of the society.

Confiscation: It is the process of a government's taking ownership of a property without compensation.

General Instability Risk: It is related to the uncertainty about the future viability of a host country's political system.

Nationalisation: It involves government ownership and it is the government that operates the business being taken over.

Political Risk: Political risk is the risk of loss that occurs as a direct result of the actions of a government or changes in the political structure in a particular country.

Socialist Government: A socialist government owns and operates the basic major industries but leaves small business to private ownership.

3.8 Review Questions

1. Explain the multiplicity of political environment. Distinguish between parliamentary and absolutist governments.
2. Distinguish among the governments: two party, multi-party, single-party and dominating one party.
3. Distinguish among the economic systems: communism, socialism and capitalism.
4. Explain confiscation, expropriation, nationalisation and domestication. What is creeping expropriation and what is its economic impact on foreign investors?
5. How can a company do country risk analysis for investment purposes?
6. Explain the methods of political risk management: avoidance, insurance, negotiating the environment and structuring the investment.

Notes

Answers: Self Assessment

1.	Government	2.	One Party
3.	Environmental	4.	Business Operations
5.	Political Climate	6.	28
7.	MNC	8.	Private
9.	Policy Makers	10.	1993
11.	Privatisation	12.	IDA
13.	MIGA	14.	1956
15.	IFC		

3.9 Further Readings

Books

Cateora and Graham, *International Marketing*, McGraw Hill, 2007

Cateora, Philip R., Mary C. Gilly, and John L. Graham, *International marketing*, 14th Edition, New York: McGraw-Hill Irwin, 2009.

Charles W.L. Hill, *International Business Competing in the Global Marketplace*, 4th Edition, Tata McGraw-Hill Publishing Company Limited

Chase Richard, Jacob Robert, Aquillano and Agarwal Nitin, *Operations Management*, 11th Edition, Tata McGraw-Hill Publishing Company Limited

Justin Paul, *International Business*, (3rd Edition), Prentice Hall of India

Kotabe, Masaaki, and Kristiaan Helsen, *Global Marketing Management*, Hoboken, NJ: J. Wiley, 1998.

Vasudeva, PK, *International Marketing*, Excel Books, New Delhi, 2010

Online links

http://globalmarketingtoday.wordpress.com/about/getting-global-the-political-legal-environment/

http://www.egyankosh.ac.in/handle/123456789/57

http://www.exporthelp.co.za/modules/1_considering_exporting/env_political.html

http://toolkit.smallbiz.nsw.gov.au/part/21/104/479

Notes

Unit 4: International Legal Environment

CONTENTS

Objectives

Introduction

4.1 Legal Systems

4.2 Legal Environments

4.2.1 Bribery

4.3 Legal Forms of Organisations

4.3.1 Intellectual Property

4.3.2 Counterfeiting

4.4 Money Laundering

4.5 Foreign Exchange Management Act, 1999 (FEMA)

4.6 Summary

4.7 Keywords

4.8 Review Questions

4.9 Further Readings

Objectives

After studying this unit, you will be able to:

- Distinguish between Common Law and the Statute Law.
- Understand the legal systems of the various countries while dealing with international marketing.
- Distinguish between tariffs, subsidies, corruption, bribery, grey market and black market.
- Understand the legalities of counterfeiting trade market by bringing legalities conforming to intellectual property rights, copyrights, trade marks, industrial designs and geographic appellation.
- Understand money laundering and FEMA as it pertains to international marketing.

Introduction

There are wide variations between countries n the policies and regulations regarding the conduct of the business.

Example: Certain trade practices or promotional methods/strategies allowed in some countries may be regarded as unfair by the laws of some other countries.

In many countries there is a lot of restriction n the use of the media. Radio and Television, in particular are under State monopoly or under strict state control in a number of countries. The

Notes

advent of cable TV however, is creating problems for regulation. In most countries, apart from those laws that control investment and related matters, there are a number of laws that regulate the conduct of the business. These laws cover such matters as standards of product, packaging, promotion, ethics, ecological factors, etc. Business policies and regulations have much to do with the political system and the characteristics of the political parties and politicians. In many countries with a view to protecting consumer interests, regulations have become stronger. Regulations to protect the purity of the environment and preserve the ecological balance have assumed great importance in many countries.

Some governments specify certain standards for the products (including packaging) to be marketed in the country: some even prohibit the marketing of certain products. In most nations promotional activities are subject to various types of controls. Several European countries restrain the use of children in commercial advertisement. In a number of countries, including India, the advertisement of alcoholic liquor is prohibited. There area host of statutory controls on business in India. Although the controls have been substantially brought down as a result of the liberalization, a number of controls still prevail. Many countries today have laws to regulate competition in the public interest. Elimination of unfair competition and dilution of monopoly power are the important objectives of these regulations.

4.1 Legal Systems

In order to understand and appreciate various legal systems and their legal philosophies among countries, it is essential to distinguish between the two major legal systems: common law and statute law.

Notes There are about 25 common law or British Law countries.

A common law system is a legal system that relies heavily on precedents and conventions. Statutes guide judges' decisions not so much as by previous court decisions and interpretations of what certain laws are and should be. As a result, these countries' laws are tradition oriented. Countries with such a system include United States, Great Britain, Canada, India and other British colonies.

Countries implying a statute law system, also known as code or civil law, include most European countries and Japan. Most countries, which are approximately 70, are guided by statute law legal system. As the name implies, the main rules of law are embodied in legislative codes. Every circumstance is clearly spelt out to indicate what is legal and what is not. There is also a strict and literal interpretation of law under this system.

In actual practice, the two systems greatly overlap and the distinction between them is not clear-cut. Although US judges greatly rely on other judges' previous rulings and interpretations, yet they still refer to many laws that are contained in statute or codes. For statute law countries, many laws are developed by courts and are never reduced to statutes. Therefore, the only major distinction between the systems is the freedom of the judge in interpreting laws. In common law countries, the judges' ability to interpret laws in a personal way gives the judge a great deal of power to apply the law as it fits the situation. In contrast, a judge in civil law countries has a lesser role in using personal judgment to create or interpret laws because judges must strictly follow the law.

Notes

4.2 Legal Environments

As there is a multiplicity of political environment, there are various legal environments: domestic, foreign and international. If laws are not handled properly they can prohibit the marketing of a product altogether. To most business people, laws act as an inconvenience.

Example: Club Med's policy of rotating its international staff every six months is hampered by the US immigration law, which makes the process of rotation, both time consuming and costly.

There are a number of products that cannot be legally imported into most of the countries. They include counterfeit money, illicit drugs, pornographic materials, dangerous explosives and espionage equipment. It is also illegal to import live animals and fresh fruits unless accompanied by the required certificates from the medical authorities. There are certain products that have to be modified to conform to the laws of the land. These modifications may be technical in nature from the engineering point of view or cosmetic as in the case of certain packaging changes.

The legal environment can affect a company's production strategy. Some of the countries impose bans on the importation of Saturday Night Specials – cheap, short barrelled pistols because they are used for crimes like sex and violence. As a result, Beretta, an Italian gun maker, is able to overcome the import ban by setting up a manufacturing operation in the State of Maryland because the gun control legislation does not prohibit the sale of such inexpensive weapons.

Every country has its own legal bindings on imports as well as on foreign investors. They have to abide by such laws because of socio-political reasons. The complexity can only arise for those companies that do business in various countries where various laws may demand contradictory actions.

4.2.1 Bribery

Bribery is both unethical and illegal. However, it seems that bribery is not really that straightforward an issue. The main questions regarding bribery are: what is bribery, how it is used and why it is used. The ethical and legal problems associated with bribery are quite complex.

According to Foreign Corrupt Practices Act (FCPA), bribery is the use of inter state commerce to offer, pay, promise to pay, or authorise giving anything of value to influence an act or decision by a foreign government, politician, or political party to assist in obtaining, retaining, or directing business to any person. The bribe is also known as "Pay-Off", "Grease Money", "Kickback", "Lubricant", "Little Envelop", "Bite" (in Mexico), "Paper Weight", "Under the Table Money" and other terms. A bribe may be in the form of cash, gifts, jobs and free trips. Example understated Fodder Scam, describes the bribe as a scam.

Example: **Fooder Scam**

It was in the 1990s when Laloo Prasad Yadav and the previous Chief Minister of Bihar, Misra, were at the helm of affairs in Bihar. They had been withdrawing money with the help of certain corrupt bureaucrats from the Treasury for the purchase of fodder for the cattle. The total amount withdrawn by them for their personal use came to the tune of more than ₹ 1000 crore and this came to light only after about four years. A CBI enquiry had been ordered and arrests made. A prima facie case has been established against two former chief ministers and a large number of bureaucrats who have been charge-sheeted.

Notes

This act of theirs has been most unscrupulous, unethical and illegal. This, though, does not fall in the strict precincts of bribery; however, it is akin to bribery.

There are a number of instances of firms paying bribes. In 1995, the US government learnt about 90 cases of firms paying bribes to undercut American firms' efforts to win international contracts worth $45 billion. Germany's Siemens, France's Alcatel Alsthom and Airbus Industries are among the major practitioners. Germany found 1500 cases of public officials on the take between 1987 and 1995 in Frankfurt, adding 20 to 30% to the cost of a building contract. Lockheed Corporation admitted paying $38 million in bribes, kickbacks and other questionable payments to foreign officials to facilitate aircraft sales from 1970 to 1975. Sweden offered kickbacks to arms agents for the sale of their Bofor guns to the Indian Army. This has created quite a political upheaval in the country and the enquiry is still in progress example understated.

Example: **Bofors Kickbacks**

India was looking for a gun which could clear the high lofty mountains, as the 130 mm Russian gun was not found suitable for such a purpose. A few months after the Bofors deal between India and Sweden was signed, the same assassin who wounded Mr Olaf Palme, the Swedish Prime Minister, while leaving a cinema hall in Stockholm was assassinated by his wife, who was walking ahead of him. Mr Palme had promised India that there would be no pay off in Bofors deal and insisted that there would be no middlemen.

In 1987, Mr VP Singh, who had been finance minister and then defence minister, was fed up with the corruption which had permeated all walks of life particularly the top echelons. He wished to revitalise his campaign around this issue but said that his great difficulty was that he had no material with which to proceed further.

The Bofors purchase led to the fall, in 1989, of the government formed by the one party which had commanded the respect of most Indians over decades of independence. After 1989, India's experiment with democracy had reached an all-time low. Our plethora of shaky governments which led to ambitious, self-seeking, and unscrupulous coalitions had forgotten India.

The Ministry of Defence decided to purchase the Bofors gun even against the recommendation of the Army headquarters because it is alleged that some of the politicians and bureaucrats had taken kickbacks worth ₹ 63 crores from this deal. Though the Bofors gun was good, yet it is not the best. It is believed that the selection of the Bofors gun had a direct impact on the poverty of good governance in the last decade, i.e. 1989-99. The nexus of negativity has destroyed the soul of India, which needs to be restored, and a more positive future ensured for the subcontinent. The enquiry is still going on by the CBI under the supervision of Central Vigilance Commission but no substantial proof can come out till the original papers are received from the Swedish government. The legalities of this case are being worked out and the real culprits will be taken to task.

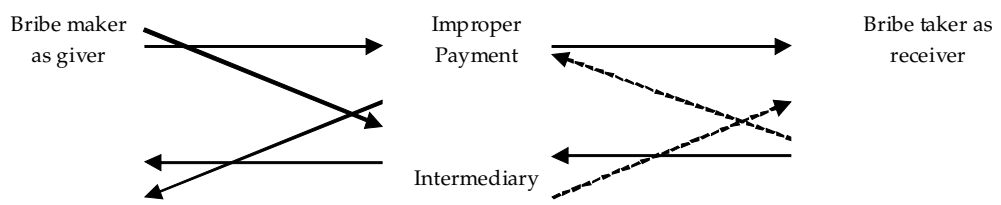
There are a number of reasons as to why a bribe is solicited, offered and accepted. Low income of public officials is one reason and simple greed is another. Loyalties and commitments of public servants have to be with their political parties, families and friends whom they can ask for favours. That will benefit those groups. The proliferation of bureaucratic regulations seems to be another cause. Among reasons why some businesspersons are willing and eager to offer a bribe are

- To speed up the required work or processing.
- To secure a contract.
- To avoid the cancellation of the contract.
- To prevent competitors from getting the contract.

Notes

John J Shaw has explained the anatomy of bribe in Figure 4.1.

Figure 4.1: Share of Top Investing Countries in FDI Inflows



Source: P K Vasudeva, *International Marketing*, Excel Books.

Notes It is interesting to note that there is no international law that deals with business activities of companies in the international arena.

There are only national laws that vary from one country to another. In preparing a contract, a buyer and seller stipulate a particular legal system that is to take precedence in resolving any dispute. The court has to be indicated for legal remedy in case of a dispute. The company must keep in mind that to earn a legal victory in the home court is one thing but to enforce a judgement against a foreign party is something different. In the international arena, enforcement is very difficult unless the foreign party has the desire to continue business in the country where the judgement is obtained.

It is often necessary to file a lawsuit in the defendant's home country. To make certain that the foreign court will have jurisdiction to hear the case, the contract should have a clause that allows the company to bring a lawsuit in either the home country or the host country. According to Article 17 of the Brussels Convention on Jurisdiction and Enforcement of Judgements, the place where the matter in controversy is located is the exclusive forum for disputes regarding real property, status of a corporate entity, public records, trade mark, copyright, patent and enforcement of judgements.

Whenever possible and practical, the company should consider commercial arbitration in place of judicial trials. Arbitration proceedings provide such advantages as an impartial hearing, a quick result and a decision made by experts. Both IBM and Fujitsu seemed satisfied with the ruling of two arbitrators in settling a copyright dispute. Intel, in contrast, did not want arbitration and was frustrated by the pace of its copyright lawsuit against NEC. After hearing lengthy and time consuming arguments, a US district judge ruled that Intel held a legitimate copyright. The case became more complicated when higher courts took another year to decide whether the judge should disqualify himself. The judge finally had to step down and the arguments were ordered and re-heard because he happened to own Intel stock worth $80 through an investment club.

Self Assessment

Fill in the blanks:

1. The only major distinction between the ..... is the freedom of the judge in interpreting laws.
2. It is often necessary to file a ..... in the defendant's home country.
3. There are only ..... that vary from one country to another.

Notes

4.3 Legal Forms of Organisations

Firms doing business in United Kingdom have three primary choices for the legal form of organisation: British Branch, Limited Company, or Partnership. India also follows an almost similar organisation to deal with the business firms. If a limited company is the choice, more decision is needed. A limited company may either be a public limited company (PLC), which can raise capital by selling securities to the public or a private company, which is not allowed to offer shares or debentures to the public. In general, a public company must meet a number of requirements in terms of registration and capital structure, subscription for shares and profits and assets available for distribution.

In the US, a business is able to select from among these forms: sole proprietorship, partnership and corporation. For firms involved in international trade, the most common choice is the corporation because of the limited liability associated with corporate form, its relatively permanent structure and its ability to raise funds by selling securities. Most large US firms have a corporation or Inc. nomenclature as part of their trade name.

Did u know? Every country has its own legal forms of organisations to deal with business.

The nomenclature indicating incorporation is different in other countries. For most British Commonwealth countries, the corporate name includes limited or limited company to indicate that the liability of the company is 'limited'. Equivalencies in civil law countries include the following: In France, SA (Societe Anonyme or Sociedad Anonima) for formal corporation/stock company and Saral (Soiete a responsibiliti limitee) for an informal corporation/limited liability company; in Germany and Switzerland, AG (Aktiengesellschaft) for a stock company and GAMBH (Gesellschaft Mit Beschrankter Haphung) for a limited liability company. In Japan, KK (Kabushikikaisha) for a stock company in Sweden AB and in Netherlands NV. In order to eliminate confusion and ensure some uniformity, European countries are now encouraging the use of PLC instead of other nomenclatures to indicate that the company is incorporated.

4.3.1 Intellectual Property

The intellectual property is the creation of human mind, the human intellect, hence the designation "Intellectual Property". It includes copyright, patent and industrial designs. Copyright relates to the rights of creators of literary, scientific and artistic works. Patents give exclusive rights to inventors; however, inventions can be patented only if they are new, known as obvious, capable of industrial applications, industrial designs are new or original aesthetic creation determining the appearance of industrial products. These three rights are available only for limited durations.

Caution Intellectual property also includes trade marks, service marks and appellations of origin (geographic indications).

In case of these property rights, the aspect of intellectual creation - although existent – is less prominent. However, protection is granted to trade mark and other signs to enable manufacturers to distinguish their products or services from those of others. Trade marks help manufacturers build consumer loyalty. They also assist consumers in making informed choices on the basis of the information provided by manufacturers about the quality of the product. Description of these property rights are as follows:

- ***Patents:*** Patents provide property rights to invention. For registering an invention for a patent, it must be new, involve an inventive step and be capable of industrial application.

Notes

The only products or the processes which countries are permitted to exclude according to trade related intellectual property rights (TRIPS Agreement of WTO) are (i) diagnostic, therapeutic and surgical methods for the treatment of humans or animals (ii) plants and animals other than micro-organisms (iii) essentially biological processes for the production of plants and animals other than non-biological and micro-biological processes.

- ***Copyrights and Related Rights:*** The subject matter of copyright protection includes works in the literary, scientific and artistic domain, whatever the mode or form of expression. For a work to enjoy copyright protection, however, it must be an original creation. The idea in the work does not need to be new but the form, be it literary, artistic or scientific, in which it is expressed, must be the original creation of the author. Copyright owners have the reproduction rights (copying and reproducing the work); performing rights (performing the work in public, e.g. play or concert); recording rights (making a sound recording of the work); motion pictures rights (making a motion picture often called a cinematography work); broadcasting rights (broadcasting the work by radio or television) and translation and adaptation rights.
- ***Trade mark:*** This is a sign that serves to distinguish the goods (as does the service mark with regard to services) of industrial or commercial enterprise from those of other enterprises. Such a sign may consist of one or more distinctive words, letters, names, numerals, figurative elements and combination of colours. Such a sign may combine any of the above mentioned elements. As the basic purpose of a trade mark is to distinguish, the laws of most countries provide that any product to be marked should be distinctive.
- ***Industrial designs:*** It cover the ornamental features of the products including shapes, lines, motives and colours. Industrial designs are protected mainly in consumer articles of which textiles, leather and leather products and motor cars are a few examples. The designs, thus, need to be either novel or original to qualify for protection. The owner of the protected designs has exclusive rights to its use and can even prevent third parties who have not obtained his or her consent from making, selling or importing articles bearing or embodying a design which is a copy or substantially a copy of the protected design.

  Layout Designs of Integrated Circuits: Except when it provides otherwise, the TRIPS Agreement requires countries to protect the layout designs of integrated circuits in accordance with the Washington Treaty on Intellectual Property in Respect of Integrated Circuits (1989). Additional provisions stipulate, inter alia, that importing or selling articles incorporating a protected integrated circuit without authorisation from the right holder shall be considered unlawful. However, acquisition of an article by persons who do not know it incorporates an unlawfully reproduced layout design does not constitute an unlawful act. Innocent infringers may sell or dispose of stock acquired before they became aware that the use of the layout design is unlawful. However, they shall be liable to pay the right holder a reasonable royalty. Geographic indications aim at informing the consumer that a good has the quality, reputation or other characteristic, which is essentially attributable to its geographic origin. The TRIPS Agreement provides that the countries shall not permit registration of trade marks containing a misleading indication of the geographic origin of goods.

Example: The most common example of this is 'champagne', a term associated with wine produced in a certain region of France. In principle, therefore, it is not permissible to call wine produced elsewhere as 'champagne' even though the wine may be regarded in the producing countries as comparable to French champagne.

Notes

Similar is the case with the patenting of Indian basmati rice, which has been patented by American Co. Ricetech and given its name as Texmati. India has a right to take up a case against the patenting of Texmati in the United States' Patents Office as Indian basmati has exclusive marketing rights being a geographic Himalayan tarai region product.

4.3.2 Counterfeiting

Once a business has obtained intellectual property protection, it then faces the far more difficult problem of enforcing those property rights in the worldwide market-place. The most significant problem is one of pirated or counterfeit products, especially for popular products. Both, governments and individual businesses, have interests in stopping piracy and some grey market practices.

Business Responses to Counterfeit Goods

As anyone who has walked down a city street and been offered counterfeit Gucci bags, pirated cassette tapes, or bogus Levi's 501 jeans knows, it is not easy to protect intellectual property rights. The counterfeit merchandise looks, on the surface, to be the real article, but is really a knock off, taking a free ride on the advertising and popular success of the genuine product.

Intellectual property piracy has three consequences for the legitimate trade mark, patent or copyright holder. First, it deprives the owner of revenue from the creation of the product, since the bootlegger pays no royalties. Second, when the quality of the counterfeit goods is poor, buyers who thought they were getting the real product will think poorly of the company that owns the intellectual property rights. Finally, the bootleg sales deprive the legitimate dealers of sales, which affect the success of the distributors' relationships with the right owner.

Of course, when a property rights owner finds someone selling counterfeit goods in any country where the owner has intellectual property rights, an action for copyright, patent or trade mark infringement is appropriate. Generally, most nations also allow customs officials to seize infringing goods upon import. US law contains some representative provisions allowing customs to stop infringing products at the border. Section 602 of the Copyright Act.

Example: Prohibits the import of products that infringe on US copyrights, and allows customs to seize any such products (see 17 USC 602).

Similarly, Section 526 of the Tariff Act of 1930 (19 USC 1526) prohibits imports of goods bearing a US registered trade mark without authorisation from the trade mark owner, and also allows customs to seize those goods. Section 337 of the Tariff Act of 1930 (19 USC 1337) provides similar protection from imports that infringe US patents.

Did u know? In 1988, Congress strengthened the methods available for blocking infringing goods from import.

Using Section 337 of the Tariff Act of 1930 (19 USC 1337), any owner of a registered US intellectual property right, who believes that an import infringes on that right, may apply to the International Trade Commission (ITC) for relief. The ITC has the power to issue orders excluding goods from the United States, ordering unfair trade practices to cease, and, in some instances, ordering forfeiture of the offending goods. For managers, the weakness of all of these remedies is that they only stop goods at the border, not at the source. Further, customs cannot inspect all incoming shipments, looking for products that look genuine but are not. Customs relies heavily on property rights holders informing them of incoming shipments or problems with counterfeit

Notes

products. Thus, the task of policing intellectual property rights falls primarily to businesses, which need to know their markets and the likely trouble spots for their products. Apple Computer, for example, has been very successful at monitoring areas where it believes counterfeiting is taking place, then using local police and other officials to seize products before they leave production sites.

Government Responses to Counterfeit Goods

In recent years, the spotlight has shifted from individuals to governments in the struggle to improve intellectual property protection. The US government, in particular, has become an activist towards improving intellectual property protections internationally. It has used two major vehicles to try to get other countries to change their policies: section 301 of the Trade Act of 1974 and the GATT.

In 1988, a Congress frustrated with the lack of protection for US intellectual property rights enacted two new provisions amending section 301 of the Trade Act of 1974. Section 301 is, in general, a trade retaliation statute, requiring the United States to retaliate by imposing higher tariffs or restrictions to the US market in some circumstances, and authorising retaliation in others. The two 1988 amendments strengthened the authority of the US government to retaliate for unfair trade practices and to negotiate to improve the protection of intellectual property.

One amendment, known as "Super 301", requires the US trade representative to identify unfair foreign trade practices having a major impact on the US economy and identify the countries in which those practices take place. Once the priority practices and countries are identified, the US trade representative must undertake negotiations to remove the unfair trade practices. If the negotiations do not result in improvements, the United States must retaliate against the designated country.

The second amendment, known as "Special 301," specifically targets intellectual property practices. It requires the US trade representative to identify the countries that deny Americans effective protection of intellectual property rights or deny market access to US businesses that rely on intellectual property law. As with a Super 301 designation, identification triggers section 301 investigations, which lead to retaliation.

Although many countries believe that the section 301 provisions violate the GATT, the sections have had an impact on world trading practices. Japan, which was targeted under Super 301, has liberalised its markets in several areas. In 1992, China agreed to improve its intellectual property protections and to join the Berne Convention, just before a deadline set for retaliation under Special 301.

Self Assessment

Fill in the blanks:

4. In the ....., a business is able to select from among these forms: sole proprietorship, partnership and corporation.
5. ..... provide property rights to invention.
6. The second amendment, known as "....," specifically targets intellectual property practices.

Notes

Caselet

Grey Market Dominates VCD Segment

As technology marches on from video cassette recorders (VCRs) to video compact discs (VCDs), it is the grey market that dominates the segment.

Ironically, if the cable TV boom was responsible for the dip in demand for the VCR, it is the same cable operator who helped the VCD to thrive as he chose to use it as a replacement and cheaper alternative to the laser disc (LD) when beaming to households.

"The cable boom certainly has a significant role to play in contributing to the decline of the VCR segment. In a way, even before the VCR segment could make an impact in the Indian market, it began to be replaced by the stand alone VCD segment, which saw increased sales in the Indian market. The easy availability of affordable VCD software and hardware in the grey market drove this boom. Interestingly, as per estimates available, the grey market for VCD players has been growing year on year," Mr R Zutshi, Director, Samsung India, said.

The market size of the stand alone VCD product in the country (organised sector) would be around 4.5 - 5.0 lakh this year and its contribution to the total VCD market would be around 20-25 per cent. "That is to say, the bulk of the VCD market is dominated by the unorganised or the grey market," he said.

Mr Zutshi further added that, "VCD prices have certainly seen a dip over the years."

"The Indian entertainment industry has certainly come a long way and in the future we expect the consumption patterns to show a market shift— the penetration levels for VCD players and the mini hi-fi systems will grow in the smaller cities and semi-urban markets even as urban consumers shift to micro or mini audio systems, mini cross over products and home theatre systems," he said.

"VCDs not only introduced a completely new home entertainment concept to Indians but also highlighted the fact that one must go for a complete home entertainment package. In India, consumers are increasingly looking for the latest technologies thanks to the products enabling digital networking between electronic devices," Mr Leichi Sakamoto, Managing Director, Sony India Pvt. Ltd. said.

Further, he felt, that as far as price rationalisation was concerned, it was only natural in an expanding market. According to Mr VV Gosavi, Senior Product Marketing Manager, CD Business, Philips India, the segment was highly price sensitive and the category has seen heavy price erosion in the past one year.

However, price sensitivity notwithstanding, the VCD segment is expected to be the fastest growing.

Said Mr Kishan Kalani, Chief Operating Officer, Oscar International, "Today, the VCD is undoubtedly the fastest growing segment of consumer electronics. This trend is expected to continue in the next few " In fact, industry analysts feel that fuelled by low prices offered by branded domestic players coupled with warranty and greater penetration in semi-urban areas, the organised sector in the segment could definitely strengthen its position.

Source: P K Vasudeva, *International Marketing*, Excel Books.

Notes

4.4 Money Laundering

The government, in the winter session of the Parliament in 2002, passed the Indian Money Laundering Act. Money laundering is one of the serious worldwide menaces that are bothering all countries. Anti-money laundering measures have been introduced in some countries to stabilise their economy. If this menace goes unattended, there will be a parallel black money economy resulting in high inflation and increase in poverty.

Although progress has been made, notably in the countries that have introduced any anti-money laundering measures, the problem of money laundering has not been resolved, according to a senior official of the Organisation of Economic Cooperation and Development (OECD), Ms Patrick Moulette. Writing in the latest issue of the OECT Observer, the official journal of the Paris-based inter-governmental think-tank of 29 rich industrial countries, Ms Moullete, a member of the OECT's Financial Action Task Force on money laundering (FATF), said that the facilities used by the money launderers are changing all the time as they try to circumvent the preventive measures put in place by various countries.

Citing an IMF study on scale of money laundering, she said that worldwide this could be somewhere between 2 and 5% of the GDP. According to 1996 statistics, this translates into a range of $590 billions to $1.5 trillions. It was in 1989 that a group of 7 industrial countries set up the FATF, which coordinated the action on this score.

One of the first tasks of this body, which comprises 26 member countries, two international organisations and three observers, was to spell out a spate of measures that the national government should take to combat money laundering. The OECD Report assumes significance in the Indian context where the Prevention of Money Laundering Bill (PMLB), supposed to be passed along with the Foreign Exchange Management Act (FEMA) as "concurrent legislation" to substitute the much dreaded Foreign Exchange Regulation Act (FERA), remained stuck in a reference to a Selection Committee of Parliament. Despite all these developments, the OECD official said that instead of introducing illegally obtained cash into the country's financial system, the launderers move it to other countries where no questions are asked about its origin.

Set-up involving offshore financial centres seems to have certain common features; a series of financial transactions and a global network of all shell companies. She said that inability to obtain information about the real owners of foreign entities with corporate status is one of the chief hurdles to detection, investigation and prosecution of persons suspected of money laundering.

Money laundering also entails professional service providers – accountants, lawyers and similar professionals – who operate not only in offshore zones but also in some FATF countries. These service providers set up and manage entities with corporate status thereby giving apparatus of money laundering considerable sophistication of gloss of clout. Currently, only a few countries require professional service providers to report suspicious transactions. With the ever widening range of financial instruments on offer, other laundering possibilities are being opened up.

Ms Moulette said that derivatives and security markets seem particularly susceptible to recycling of organised crime proceeds because the audit trail is so easily blurred. A broker could easily launder a sum of money through a perfectly legal transaction with no need even to make a false entry. All that is necessary is to assign genuine trading losses to the account in which the illegal funds will be deposited. For instance, she said, "It is absolutely legal for a dealer in the financial future market to hold two contracts for subsequent offset".

By assigning trading gains and losses to two different accounts, one "regular" and the other to receive the laundered funds, the dealer could put through a laundering operation on the loss account without breaking the law. Insurance, notably life, property and long-term capitalisation

Notes

bonds, is another possibility. Launderers generally pay for the insurance with cash and then request early redemption of the policy or make a claim against their property insurance, thus, obtaining payment in bank money from the insurance company.

Electronic funds transfer continues to be the preferred method for the layering of criminal proceeds once they enter the legitimate financial system. Frequently, these proceeds are smuggled out of the country, deposited in another, and then wired back to the country of origin.

The new payment technologies – smart cards, online banking, and electronic cash – could theoretically increase the opportunities for laundering. If an online financial institution is located in an area known for high level of banking secrecy and requires little or no proof of identity for the opening of an account, the money launderer can then move funds from the convenience of his computer terminal. Certain smart cards and e-cash systems likewise present a risk in that no upper limit is set on transactions. While most smart card systems do not permit direct card-to-card transaction, others are being developed that might have this capability of bypassing a financial intermediary.

In the absence of consistent standards and suitable monitoring by the supervisory authorities, these new payment technologies could be vulnerable to money laundering operations. As in the case of high value commodity market, the gold market is causing some concern of the money laundering possibilities it offers. A number of FATF members have received reports of suspicious gold transactions. In some transactions these appear to affect attempts to high value added tax rates (VAT) by making large purchases of gold in countries with low VAT rates and then exporting the bullion back to the country of origin. The use of gold for purposes of laundering is often intrinsic to movements of money through parallel banking circuits, an example being the South Asian havala/hundis system.

This system, based on trust and close business contacts, enables gold to be transferred without being physically moved. Using this system is more cost effective and less bureaucratic than moving funds through recognised banking channels. Laundering of this kind, which is extensively practiced over the sub continent, has spread in many other areas of the world. All countries must amend their laws to curb this system.

Self Assessment

Fill in the blanks:

7. Electronic funds transfer continues to be the preferred method for the layering of ..... proceeds once they enter the legitimate financial system.
8. In the absence of consistent ..... and suitable monitoring by the supervisory authorities, these new payment technologies could be vulnerable to money laundering operations.
9. A number of ..... members have received reports of suspicious gold transactions.

4.5 Foreign Exchange Management Act, 1999 (FEMA)

Foreign exchange means foreign currency and includes all deposits, credits and balances, payable in any foreign currency and any drafts, traveller's cheques, letters of credit and bills of exchange, expressed or drawn in Indian currency but payable in any foreign currency; any instrument payable, at the option of the drawee or holder thereof or any other party thereto, either in Indian currency or in foreign currency or partly in one and partly in the other.

Under section 5 of the Negotiable Instruments Act, 1881, a "bill of exchange" is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to

Notes

pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument. A promise or order to pay is not "conditional" within the meaning of this section and section 4, by reason of the time for payment of the amount or any instalment thereof being expressed to be on the lapse of a certain period after the occurrence of a specified event which, according to the ordinary expectation of mankind, is certain to happen, although the time of its happening may be uncertain. The sum includes future interest or is payable at an indicated rate of exchange, or is according to the course of exchange, and although the instrument provides that, on default of payment of an instalment, the balance unpaid shall become due. The person to whom it is clear that the direction is given or that payment is to be made may be "certain person", within the meaning of this section and section 4, although he is misnamed or unless the acceptor states on the face of the bill that he subscribes for a disclosed principal. The usual mode of accepting a bill of exchange is for the drawee to write, "accepted", across the face of the bill and then to sign his or its name underneath. Under section 6 of the said Act, a cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand. A traveller's cheque is a bill of exchange drawn by the issuing bank upon itself, accepted by the act of issuance, and the right to countermand applied to ordinary cheques does not exist as to it. It has the characteristics of a cashier's cheque of the issuing bank. Letter of credit is an open or sealed letter, from a merchant in one place, directed to another, in another place or country, requiring him, if a person therein named, or the bearer of the letter, shall have occasion to buy commodities, or to want money to any particular or unlimited amount, either or procure the same or to pass his promise, bill, or bond for it, the writer of the letter undertaking to provide him by exchange, or to given him such satisfaction as he shall require either for himself, or the bearer of the letter.

Task Prepare a short report on Indian Legal Environment.

The Foreign Exchange Regulation Act, 1947, was originally enacted as a temporary measure; Act 39 of 1957 placed it permanently on the Statute Book. There have been several amendments to the Act since then. In the light of experience gained during the last several years, the Directorate of Enforcement and the RBI have suggested and the government has agreed on the need for regulating, among other matters, the entry of foreign capital in the form of branches and concerns with substantial non-resident interest in them, the employment of foreigners in India, etc. In view of the major changes introduced in the Indian economy and liberalisation of industrial and trade policies, consistent with the fast-changing international economic and trade relations, it has become necessary to create a better and more conducive climate for increased inflow of foreign investment and capital in the country to accelerate industrial growth, promotion of trade, especially exports. When this was enacted, certain special restrictions were introduced in regard to foreign investments and activities of individuals and concerns in India having non-resident interest. While it is necessary to continue to regulate the activities of foreign companies or branches of such companies and foreign citizens in India, the special restrictions need to be removed in respect of companies registered in India, and the regulations in regard to foreign investment need to be simplified to attract better flow of foreign capital and investment. Accordingly, it has become necessary to remove unnecessary restrictions and also simplify the procedure.

In 1973, Act of 1947 was repealed by Foreign Exchange Regulation Act, 1973, which has now been repealed and replaced by Foreign Exchange Management Act, 1999, and the Appellate Board constituted under section 52(1) of the said Act shall stand dissolved.

Subject to the provisions of sub-section (3), all offences committed under the repealed Act shall continue to be governed by the provisions of the repealed Act as if that Act had not been repealed.

Notes

Notwithstanding such repeal (a) anything done or any action taken or purported to have been done or taken including any rule, notification, inspection, order or notice made or issued or any appointment, confirmation or declaration made or any licence, permission, authorisation or exemption granted or any document or instrument executed or any direction given under the Act hereby repealed shall, in so far as it is not inconsistent with the provisions of this Act, be deemed to have been done or taken under the corresponding provisions of this Act (b) any appeal preferred to the Appellate Board under section 52(2) of the repealed Act but not disposed of before the commencement of this Act shall stand transferred to and shall be disposed of by the Appellate Tribunal constituted under this Act (c) every appeal from any decision or order of the Appellate Board under section 52(3) or 52(4) of the repealed Act shall, if not filed before the commencement of this Act, be filed before the High Court within a period of sixty days of such commencement provided that the High Court may entertain such appeal after the expiry of the said period of sixty days if it is satisfied that the appellant was prevented by sufficient cause from filing the appeal within the said period.

Self Assessment

Fill in the blanks:

10. The usual mode of accepting a ..... is for the drawee to write, "accepted", across the face of the bill and then to sign his or its name underneath.
11. The Foreign Exchange Regulation Act, ... , was originally enacted as a temporary measure; Act 39 of 1957 placed it permanently on the Statute Book.
12. A ..... cheque is a bill of exchange drawn by the issuing bank upon itself, accepted by the act of issuance, and the right to countermand applied to ordinary cheques does not exist as to it. It has the characteristics of a cashier's cheque of the issuing bank.
13. Under ..... of the Negotiable Instruments Act, 1881, a "bill of exchange" is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.

Case Study

Fema Allows Dealers to Make Remittances for Genuine Deals

FEMA, the improved version of FERA, which has come into effect from June, does not do away with exchange controls as such. Nonetheless, it puts an end to the archaic system of sending businessmen and managers to jail for civil offences.

The substitute of financial penalties is better even though the quantum of penalty does not reflect the low national cost of generating foreign exchange. Welcoming the new Act, Fieo Chief, Navratan Samdria, has said that the new Act recognises the export contract. There are no artificial limits in the law for agency commission or buyer claims. The actual incidence of these is left to market forces. Agency commission in the case of rupee trade is, however, not allowed.

The invoice value is no longer sacrosanct; it is a mere reflection of the consignment at the time of drawing up the bill. The actual value of goods is a function of time and place, the actual sale proceeds depend upon the market situation. However, the new thinking should

Contd...

Notes

be reflected in bank procedures and also the mindsets of the customs and DGFT officials. They are fixed to the invoice values and bank realisation certificates and do not wish to hear anything else.

In the new FEMA rules, business travellers can now avail of, minimum of $5,000 forex with minimum documentation and paperwork. The limit has been raised from the current level of $3,000.

There is new GR/PP form, which should be used in all export documentation. As of now, the RBI has asked exporters to continue with the old forms after modifying them for the FEMA undertakings. The new set of GR/PP forms will be provided to exporters shortly.

On the import side, authorised dealers have been given permission to make remittances for all genuine transactions. In case of doubts on the authenticity of the transaction, dealers have the right to refuse to deal with the importers, provided they do so in writing.

Exceptions to the general permissions for import remittances are under Schedule II and Schedule III of the FEMA rules, which cover cases requiring permission from union government as well as situations where monetary ceilings are prescribed.

The important point in exchange control on imports is that RBI approval is required for supplier credit beyond 180 days. For credit below 180 days, no permission is required and the dealer can straight away send out the amount. Similarly, all cases of buyer's credit, which means advance payment for the goods in some form or the other, also require a RBI clearance.

The RBI has withdrawn itself from the task of prescribing documents for each transaction. The decision is left to the authorised dealer who must deal with each situation according to the ground level facts and circumstances. The intention is to control the transaction on the basis of undertakings and declarations rather than conducting another customs clearance at the banking stage.

Agriculture trade: The IIFT and the department of agricultural research and cooperation held a day-long meeting of agriculture experts recently. The well-researched backgrounder from NCAER showed up negative subsidies on most agriculture commodities, rice led the field at over minus 40 per cent. The state government representatives felt that imports were responsible for depressed agriculture prices.

Economists said that rise in state minimum support prices and the consequent difficulties in disposing the expensive purchases are bad for agriculture. Concerns of good security were topmost in the minds of the commerce ministry negotiators. They are looking for ideal tariff rate, which meets the interests of the Indian producers and consumers without compromising food security.

The commerce ministry is on a transparency spree, the main discussion papers on both the agriculture and services negotiations at WTO reflecting the tentative position of the Indian government on the Internet along with other related material.

Anybody can visit the site in the nic.inserver; one click on the commerce button is all that is required to download the material. Suggestions and views can be sent on the Internet at the Webmaster address. Given the limitations of the negotiations, cogent reactions will strengthen India's case at the WTO forum. The views will also build the consensus on reform in agriculture.

Furnace Oil: The DGFT notified ₹ 780 per tonne as the industry rate of drawback on furnace oil supplied to 100 per cent EOUs and export processing zones. The measure

Contd...

Notes

reimburses the duties suffered by the deemed export on the fast track route. The brand rate alternative requires verification of the actual duty paid. The DGFT action is especially welcome because the duties suffered are rarely reimbursed by the export promotion system.

Sodium Cyanide: The revenue department has slapped a stiff anti-dumping duty on sodium cyanide imports. The final duty is ₹ 68.025 per kg on all imports from US, EU, Czech Republic and Korea. The 16 per cent countervailing duty to compensate for the excise duty suffered by domestic goods must also be paid on the anti-dumping duty. In other words, another ₹ 10.88 per kg must be paid as countervailing duty due to the anti-dumping duty of ₹ 68.025 per kg. The short paid provisional duties will also be recovered as the customs shoot the demand letter out.

Question

1. Discuss the case in brief.

Source: P K Vasudeva, *International Marketing*, Excel Books.

4.6 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- In order to understand and appreciate various legal systems and their legal philosophies among countries, it is essential to distinguish between the two major legal systems: common law and statute law.
- There are about 25 common laws or British Law countries.
- Countries implying a statute law system, also known as code or civil law, include most continent European countries and Japan.
- Most countries, which are approximately 70, are guided by statute law legal system.
- For statute law countries, many laws are developed by courts and are never reduced to statutes. If laws are not handled properly they can prohibit the marketing of a product altogether. The legal environment can affect a company's production strategy.
- It is often necessary to file a lawsuit in the defendant's home country.
- Every country has its own legal forms of organisations to deal with business.
- It is often necessary to file a lawsuit in the defendant's home country. Every country has its own legal forms of organisations to deal with business.
- Firms doing business in United Kingdom have three primary choices for the legal form or organisation: British Branch, Limited Company, of Partnership.
- For most British Commonwealth countries corporate name includes limited or limited company to indicate that the liability of the company is 'limited'.

4.7 Keywords

Bribery: Bribery is the use of inter state commerce to offer, pay, promise to pay, or authorise giving anything of value to influence an act or decision by a foreign government, politician, or political party to assist in obtaining, retaining, or directing business to any person.

Common Law System: A common law system is a legal system that relies heavily on precedents and conventions.

Notes

Copyright: It relates to the rights of creators of literary, scientific and artistic works.

Foreign exchange: It means foreign currency and includes all deposits, credits and balances, payable in any foreign currency and any drafts, traveller's cheques, letters of credit and bills of exchange, expressed or drawn in Indian currency but payable in any foreign currency;

Intellectual property: The intellectual property is the creation of human mind, the human intellect, hence the designation "Intellectual Property".

Money laundering: It is one of the serious worldwide menaces that are bothering all countries.

Patents: Patents give exclusive rights to inventors;

Trade mark: It is a sign that serves to distinguish the goods (as does the service mark with regard to services) of industrial or commercial enterprise from those of other enterprises.

4.8 Review Questions

1. Describe the multiplicity of the legal environment. Distinguish between common law and statute systems.
2. Give examples of products that cannot be imported into India.
3. Explain how the legal environment has an impact on the MNC's marketing mix.
4. What is extra-territorial application of law? Why do MNCs prefer to use corporate subsidiaries in foreign markets?
5. Distinguish among patents, trade mark, copyright, industrial design and infringement.

Answers: Self Assessment

1.	Systems	2.	Lawsuits
3.	National Laws	4.	U.S.
5.	Patents	6.	special 301
7.	criminal	8.	Standards
9.	FATF	10.	Bills of Exchange
11.	1947	12.	Traveller's
13.	Section 5		

4.9 Further Readings

Books

Cateora and Graham, *International Marketing*, McGraw Hill, 2007

Charles W.L. Hill, *International Business Competing in the Global Marketplace*, 4th Edition, Tata McGraw-Hill Publishing Company Limited

Chase Richard, Jacob Robert, Aquillano and Agarwal Nitin, *Operations Management*, 11th Edition, Tata McGraw-Hill Publishing Company Limited

Justin Paul, *International Business*, 3rd Edition, Prentice Hall of India

Vasudeva, PK, *International Marketing*, Excel Books, New Delhi, 2010

Notes

Online links

http://www.studymode.com/essays/Political-And-Legal-Environment-Of-International-630488.html

http://toolkit.smallbiz.nsw.gov.au/part/21/104/481

http://www.egyankosh.ac.in/bitstream/123456789/35459/1/Unit-5.pdf

http://quizlet.com/2087778/chapter-7-the-international-legal-environment-playing-by-the-rules-flash-cards/

http://www.citeman.com/2297-international-legal-environment.html

Notes

Unit 5: International Market Research

CONTENTS

Objectives

Introduction

5.1 Concept of Marketing Research

5.2 Need for Marketing Research

5.3 Approaches to Marketing Research

5.4 Scope of International Marketing Research

5.4.1 Research of Industry, Market Characteristics and Market Trends

5.4.2 Buyer Behaviour Research

5.4.3 Product Research

5.4.4 Distribution Research

5.4.5 Promotion Research

5.4.6 Pricing Research

5.5 International Marketing Research Process

5.5.1 Defining the Research Problem and Research Objectives

5.5.2 Developing the Research Plan

5.5.3 Identifying Information Sources

5.5.4 Data Collection

5.5.5 Data Evaluation

5.5.6 Interpreting the Data

5.5.7 Report Preparation

5.6 Market Surveys

5.6.1 Setting Objectives

5.6.2 Adopting Methodology

5.6.3 Survey Conducting

5.6.4 Survey Reporting

5.7 Marketing Information System

5.8 Summary

5.9 Keywords

5.10 Review Questions

5.11 Further Readings

Notes

Objectives

After studying this unit, you will be able to:

- Recognise the sources and need for international marketing research
- List the approaches to marketing research
- Identify the scope of international marketing research
- State the international marketing research process
- Discuss the concept of market surveys and marketing information systems

Introduction

International marketing research is the systematic design, collection, recording, analysis, interpretation, and reporting of information pertinent to a particular marketing decision facing a company operating internationally.

This definition of international marketing research contains a caveat also present in the general definition of marketing research: An acquired understanding of the market environment. In an international setting, the environment is particularly complex, and it displays obvious and important subtle differences in culture, religion, customs and business practices, and general market characteristics from the environment of the company's home country.

5.1 Concept of Marketing Research

International marketing research is a complete analysis of the market, information regarding the nature, size, organisation, profitability of different markets, changes in the market and various factors — economic, social and political — affecting those changes. The main purpose of international market research is to know about consumers and the markets for its products and services. The researcher is mainly concerned with the details regarding consumers. It is a technique to know the customers — existing and prospective — of our products and services. Where do they live? When and how do they buy the products of the company? Are consumers of our products and services satisfied? Who are our main competitors and what strategies do they follow? In order to know the answers to all these questions regarding market and consumers, market research is conducted so that the marketer may come to know the shortcomings in his product, policies and strategies.

The following activities are included in international market research:

1. Analysis of the market size according to age, sex, income, profession and standard of living of customers.
2. Estimating the regional or territorial demand of different markets.
3. Collecting information about the existing and prospective customers of the company's products and their attributes and various competitors' share in the market.
4. Studying the market changes and conditions affecting market changes such as customers' preferences, shift in brand loyalty and so on.
5. Analyzing the working of various channels of distribution and their role in creating market demand of the product.
6. Forecasting the profitability of different markets and marketing segments.

Notes

Self Assessment

State whether the following statements are true or false:

1. The main purpose international market research is to know about company's assets and its shareholders.
2. The marketing researcher is mainly concerned with the details regarding consumers.

Caselet

Get a Taste of the New Coke

Although the reason for Coke's early'80s loss of market share was originally thought by both companies and all observers to be Pepsi's sweeter taste, later research has suggested otherwise.

The real culprit, according to this, turned out to be the 1965 merger between Pepsi and Frito-Lay that created PepsiCo. The new company was able to take advantage of Frito-Lay's highly developed retail distribution system to leverage more shelf space at supermarkets and other food retailers. With more shelf space available, sale specials were common for Pepsi products. Price, not loyalty, was the motivating factor for most retail consumers, and Pepsi gained substantial market share as a result.

In talks, and his book Blink, author Malcolm Gladwell puts most of the blame for the failure of New Coke on the flawed nature of taste tests. First, most taste tests are subject to systemic biases, such as the drinks being tasted in the same order in each administration of the test.

Second, a person cannot tell if he really likes something from the small amounts used in taste tests. In very small portions, people will show a preference for the sweeter drink. But in the volumes people actually drink colas, many people will find that the sweet drink they had selected in the taste test to be overly cloying. When the same people who rated New Coke very highly in taste tests claim to like the original formula better outside of taste test, then, there is no reason to think them fickle or irrational. The only sure way to tell what drink a person prefers is to let him drink larger amounts over a longer period of time.

Source: http://www.experiencefestival.com/a/New_Coke_-_Was_it_really_necessary/id/17973490.

5.2 Need for Marketing Research

There is no use of manufacturing a product where there is no demand and market research is the main instrument to analyse the size, character and trend of demand. The need for market research not only arises before the manufacturing decision but it also has a greater role to play even when the demand potential is well established. Further, research is required as to the requirement of actualising the potential. It implies that the market research data are to be collected on the method of distribution, promotion systems, and alternative price strategies and so on. The need for market research, therefore, arises to provide a sound database, which will help the management in taking the decisions under the following circumstances:

- When a new product is to be introduced in the market.
- When the sale of the product is showing a downward trend and the reason(s) for the fall could not be established.

Notes

- When facts and figures about the demand potential are not available.
- In designing an advertising programme when consumers habits and preferences and of the markets are not known.
- When product development is needed to adapt a product according to the needs of the customers.
- When the income, fashion, habits and preferences are changing fast.
- Having an idea of competitors' policies and strategies.
- When the company's own price policy is not conducive to the competitor's pricing policies and needs a change.

Did u know? Market research is needed in taking decisions regarding new product launching, product adaptation, entry to new market and alternative pricing strategies.

Self Assessment

State whether the following statements are true or false:

3. Market research is the main instrument for ascertaining demand.
4. Marketing research doesn't help in knowing the competitive policies.

5.3 Approaches to Marketing Research

There are three main headings which have been identified to carry out step by step market research. These are covered under (i) screen potential of markets, (ii) assess targeted markets and (iii) draw conclusions.

Screen Potential Markets

Step 1: Obtain export statistics that indicate product exports to various countries. Export Statistics Profile (ESP) from the Department of Commerce can assist. If ESPs are not available for a certain product, the firm should consult the Customs Statistical Service, Foreign Trade Report, Export Information Data Reports or Annual Worldwide Industry Reviews.

Step 2: Identify five to ten large and fast growing markets for the firm's product. Examine all these for the past three to five years.

Step 3: Identify some smaller but fast emerging markets that may provide ground floor opportunities.

Step 4: Target three to five of the most statistically promising markets for further assessment.

Assess Targeted Markets

Step 1: Examine trends for company products as well as trends regarding related products that could influence demand.

Step 2: Ascertain the sources of competition including the extent of industry's production and the major foreign countries the firm is competing against, in each targeted market.

Step 3: Analyse factors affecting marketing and use of the product in each market, such as end user sector, channels of distribution, cultural idiosyncrasies and business practices.

Notes

Step 4: Identify any foreign barriers (tariff or non-tariff) for the product being imported into the country.

Step 5: Identify any government incentives to promote export of the product or services.

Draw Conclusions

After analysing the data, the company may conclude that marketing resources could be better used if applied to a few countries. In general, company efforts should be directed at fewer than ten markets if the firm is new to exporting; one or two countries may be enough to start with.

Caution The Company's internal resources should help to determine its level of effort.

Self Assessment

State whether the following statements are true or false:

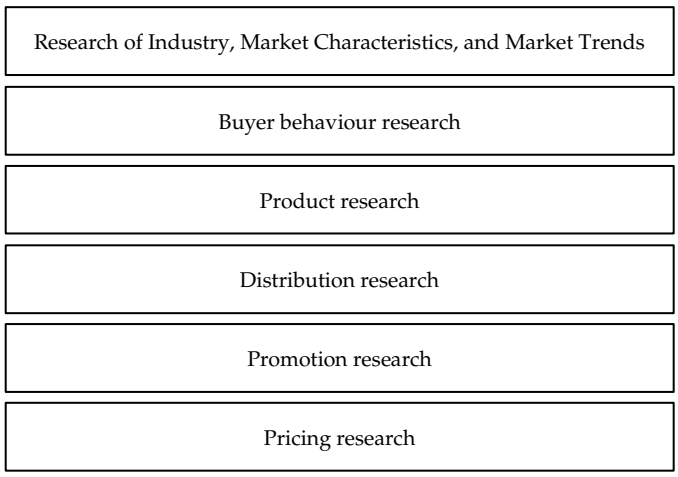
5. The first stage in analyzing demand is to screen potential markets.
6. In a new market that is opening up, the competition is generally very intense.

5.4 Scope of International Marketing Research

International marketing research has a broader scope than domestic research: Managers will need additional information to compensate for lack of familiarity with the foreign environment (Figure 5.1).

We will discuss the scope of marketing research in the subsequent sub-sections.

Figure 5.1: Scope of International Marketing Research



5.4.1 Research of Industry, Market Characteristics and Market Trends

Studies of industry, market characteristics, and market trends, often in the form of acquisition, diversification, and market-share analyses, are conducted regularly by marketing research suppliers and shared with subscribers. Export research is yet another type of research in this

category; it is prompted by the shortening of the product life cycle and the intensity of international competition, as well as by the rapid technological change that increases the need to segment markets more frequently.

5.4.2 Buyer Behaviour Research

Examining brand preferences and brand attitudes falls into the category of buyer behaviour research. In most Asian countries, uncertainty is strongly avoided, resulting in high brand consciousness, brand loyalty, greater insistence on quality, and consumers' active reliance on reference groups and opinion leaders. Whereas consumers worldwide are concerned about monetary, functional, physical, psychological, and social risks, Asians tend to be more sensitive to social risk than Westerners.

Brand awareness research and purchase behaviour studies are frequently conducted by companies to assess their position in the market. Other useful studies that belong to this category are consumer segmentation studies, which are conducted to identify profiles of heavy product consumers, as well as occasions for consumption.

5.4.3 Product Research

Concept development and testing studies are usually performed in developed countries by the firms' research and development departments. When going international, firms usually already have a successful product to bring to the marketplace; nevertheless, it is still important that they evaluate the product/service they offer and related marketing mix in light of the different target markets, regional and local.

Brand name generation and testing is used not only in the consumer goods industry, where its importance is obvious, but also in companies that have traditionally marketed their products regionally, such as agricultural goods companies. Product testing identifies the extent to which the product conforms to local tastes.

Example: PepsiCo Foods International decided to undertake extension product testing in China before introducing its Cheetos snack food brand.

Notes As for product packaging design studies, firms need to take into consideration consumers' reaction to the package, the extent to which the package adequately communicates information to the consumer, and the distribution implications of the packaging decisions.

5.4.4 Distribution Research

The distribution function is particularly important in international marketing, where special attention should be given to import/export regulations and practices, and where companies are well advised to engage in comprehensive analyses.

Another important type of study is that of channel performance and coverage which may reveal either that channels need to be further developed at significant expense to the company, or that, in certain markets, particular channels dominate much of the activity in a particular area.

Finally, plant/warehouse location studies are important, as are evaluation of the transport infrastructure (roads, shipping, and warehousing infrastructure).

Notes

5.4.5 Promotion Research

Promotion research is crucial for companies doing business internationally. By doing promotional research, the firm evaluates the extent to which it effectively communicates with the market, it ensures that certain promotional strategies are appropriate for that particular market, and, finally, it evaluates the extent to which the local media are appropriate for the intended message.

First, in terms of studies of premiums, coupons and deals, it is important to identify the practices in each country where the specific promotion will run. Advertising effectiveness research is frequently conducted to examine the effectiveness and appropriateness of advertisements aimed at individual markets.

Media research also is important. First, in terms of media availability, developing countries pose the most problems. Finally, studies pertaining to personal selling activities, such as sales force compensation; quota and territory studies are crucial in helping to determine the appropriate strategies for different markets.

5.4.6 Pricing Research

Internationally, pricing research is much more problematic than when it is performed locally, in a developed country. In addition to studies projecting demand, such as international market potential, sales potential, sales forecasts, cost analyses, profit analyses, price elasticity studies and competitive pricing analyses, which are typical of most pricing research studies conducted by U.S. firms in the U.S., the firm also must look at issues regarding counter trade and currency issues, inflation rates, and a national tradition of bargaining for every transaction all of which have implications for pricing decisions.

Self Assessment

State whether the following statements are true or false:

7. The need for research not only arises before product launch but also to ascertain demand potential.
8. Brand awareness research is conducted to find out the position of the company in the market.
9. When a company does a research to find out whether people know about their current product on offer, it is called product testing.

5.5 International Marketing Research Process

The steps in international marketing research process are discussed in the following subsections.

5.5.1 Defining the Research Problem and Research Objectives

The first step in the international marketing research process requires international marketing manager and marketing researcher to define the research problem and jointly agree on the research objectives. The complexity of the environment of international operations does not afford marketing researchers the opportunity to have a very clear idea of the specifics that the research study should examine. Instead, they may need to engage in an exploratory research of the problem to define the relevant dimensions of the problem investigated. Exploratory investigations may help to further define the problem, suggest hypotheses, or even actually

Notes

identify additional problems that need to be investigated. Descriptive research, on the other hand, portrays a situation – for instance, how frequently shoppers in Cairo shop for food items; whether they prefer to shop for meat products in state stores, which are cheaper but offer inferior-quality products, or in private stores, which are more expensive but offer a higher quality and assortment of meat products. Finally casual research examines cause-and-effect relationships, such as the extent to which Sony's offer of financial incentives to electronics salespeople in Ahmedabad, India is likely to increase sales of the Sony brand.

5.5.2 Developing the Research Plan

The research plan is a blueprint for the study, indicating all the decisions to be made with regard to information sources, research methods, data collection instruments, sampling procedures, data collection methods, data analysis, and based on these decisions the projected costs of the research.

5.5.3 Identifying Information Sources

The researcher wills tart by identifying information that may shed additional light on the problem and that has been collected either by the company itself (internal) or by some other firm or agency (external) secondary data. The secondary data may, if needed, help the researcher to more clearly define the problem and set better objectives. It will also help the researcher pinpoint the type of information that needs to be gathered for the goals articulated.

Secondary Data

Researchers first must determine if information is available, and if so, and how much; doing so may aid in gaining insights into the problem at hand. Secondary data is defined as data collected for a problem other than the problem at hand.

Secondary data can be categorized as internal (collected by the company to address a different problem, or collected by the company to address the same problem, but in a different country), or external (collected by an entity not affiliated with the company).

Primary Data

Primary research is used internationally far less than it should be. Cost-benefit analyses suggest that spending on research in remote markets of questionable value in unwise; consequently, the temptation is to use secondary data to serve all research functions.

Most international marketing research projects involve the collection of primary data, information collected for a specific purpose, to address the problem at hand. It requires substantial expertise in both instrument design and administration and, as a consequence, it is expensive and time consuming.

5.5.4 Data Collection

When the available data are insufficient, fresh data have to be collected. Usually "survey" techniques are used for gathering information. It needs not to be an elaborate survey for a sample survey would be quite sufficient. This is the method of obtaining information from a sample of respondents (groups). The sample is supposed to represent a larger group of people, i.e. the universe, sometimes all the people.

Notes

The Marketing Sample: The sample is a small group taken from the total group. The total may be a city, a state, a nation or the whole world. Sampling is essential to substantiate and interpret the data.

5.5.5 Data Evaluation

Locating the source and collecting the information is only a part of the job. The data collected cannot be simply accepted because they might contain unnecessary and/or over or under-emphasised facts. The remark "figures do not lie, but liars figure" is apt here. For, from the same set of facts, different interpreters will draw different conclusions, depending upon their individual viewpoints, their interests and their individual biases.

5.5.6 Interpreting the Data

This is an important stage in the process of research. Correct interpretation of data makes the research meaningful and purposeful. It is at this level that unorganised and unscientific research fails. The best fact finding study would become useless by wrong or improper interpretation of facts. Technical competence, broad understanding, intimate knowledge of the problem at hand, are some of the prerequisites for the correct interpretation of data.

5.5.7 Report Preparation

The final step in marketing research is summarising the result of research and making a report. The findings and recommendations are put in such a manner that the recipient of the report can understand them clearly enough to use them effectively. In general, the reports are classified into four kinds:

1. ***Executive Report:*** This report is meant for an executive to carry out the plan as quickly as possible. He need not interpret the facts once again and make a thorough study of it.
2. ***Technical Report:*** Such a report will contain the statement of the problem, the methods used in the research (methodology, the proof of the findings, etc.) The sole purpose of the technical report is to collect and present necessary technical information.
3. ***Data Report:*** It is a peculiar report for it does not contain any interpretation. It merely presents the findings in tables and charts, but does not seek to interpret what these findings or data mean. For example, it may give the sales volume in a particular area for different periods without adding any reason for their fluctuations.
4. ***Popular Report:*** It is also known as persuasive report. It is non-technical and hence of no value in the commercial field. Narration of an incident is a kind of persuasive report.

Task Name any two big Indian research firms and find out about their current works.

Self Assessment

State whether the following statements are true or false:

10. To collect primary data, the marketer should adopt collection methods from home country's point of view.
11. Exploratory research is a good way to find the demand for a product.
12. Causal research can be used to determine the level of brand awareness.

Notes

5.6 Market Surveys

A market survey is a fact-finding mission, conducted for the purpose of obtaining all relevant information about the market. The survey may be (a) product-oriented or (b) market-oriented.

- ***Product-oriented Survey:*** The aim of a product-oriented survey is to identify market for the exporter's existing product or product range. Sometimes, an organisation is already manufacturing a product for home market where it enjoys a good reputation.
- ***Market-oriented Survey:*** Main objectives of such a survey are to identify the products that may be sold in a particular overseas market. An export organisation dealing in a number of products may explore new markets for its export trade. In undertaking market-oriented survey, it would identify the product/products that could be sold in substantial quantities in that particular market.

The following steps are involved in carrying out a market survey:

5.6.1 Setting Objectives

At the outset, the exporter should clearly spell out the objectives of the survey. The objectives of the survey may be — to find out feasibility of introducing an existing product in the new market; demand estimation of new product in the target markets; identification of the most desirable form of export distributions and promotion in target market or investigation into causes of buyers' complaint/falling market share.

5.6.2 Adopting Methodology

The methodology adopted with reference to the collection of market information and its analysis, should aim at reducing the subjective element in the decision-making. The methodology should provide for the collection of only relevant information. Therefore, no single methodology can be recommended. In fact, two or more methods of collecting data are adopted, with a view to eliminate the possibility of collecting irrelevant data.

Desk research and field research methods are popularly used for this purpose. Initially, a desk research is undertaken. On the basis of the results of desk research, a field survey is conducted to bridge the gaps and collect the specific information about the product and the market.

5.6.3 Survey Conducting

There are two basic methods of conducting a survey: (a) areas of Investigation and (b) techniques of survey.

Areas of Investigation

The following areas, both in desk research and field research, should definitely be covered in the investigation:

- ***Information on market profile:*** All information about the export market, i.e. its areas, population, cultural groups, income disparity, income groups, density of population, language spoken, taste, traditions, preferences and cultural background should be collected.
- ***Information on product file:*** All information should be gathered regarding the product, the local manufacturing capacity, local imports and market demand of the product, the short-term and long-term plans and the increase envisaged thereto, product specifications, consumer preferences on product ideas. The data should be collected on products, which could be used as substitutes.

Notes

- ***Information on competition:*** The nature and extent of competition, the number of competitors, their strengths and weaknesses, the products offered by them, their sales and distribution systems, policies and strategies should be collected.
- ***Distribution:*** To investigate whether the product can be sold directly to the consumer or through intermediaries and physical movement of goods.
- ***Pricing and financing:*** Mode and currency of quotations, credit needs of buyers, banking channels and costs incurred in their system and facilities available for financing.
- ***Sales promotion:*** Visual aids, sales promotion techniques, discount structure, free samples, gifts, competition, etc.
- ***Other information:*** In addition to the above, information regarding type and stability of the governmental system, commercial procedures followed by banks, import restrictions, tariff schedules and duties and exchange control regulations.

Survey Techniques

In field research, three techniques are generally undertaken. (a) personal interview, (b) telephone interview and (c) mail questionnaire survey.

Personal Interview: This technique is most dependable. Under this method, information is gathered face to face by the interviewer from the interviewee. His opinion and attitudes about the product are noted. This method has a number of positive aspects as under:

a. It is an easy and intensive method.

b. It allows extensive discussion and analysis of specific and relevant points.

c. The information so gathered is reliable because interviewer may be able to persuade the interviewee to part with confidential and sensitive information, which cannot be made available otherwise.

This method has a number of drawbacks also which are as under:

a. Personal prejudices may destroy authenticity of information.

b. Extensive use of this method is not possible because time planning in this method is necessary. It takes much longer time in conducting the research and hence proves costlier.

c. Some respondents are difficult to be covered by this method.

Telephone Interview: Here, both the interviewer and the interviewee are over telephones and have discussions on the product and the markets. The advantages of this technique are as under:

a. It is economical and saves time and travelling. Large number of interviewees can be contacted in a short time.

b. Surveyor finds immediate response to the questions asked. The questions can be asked in a planned manner.

c. Personal contacts subsequently can be organised, if necessary.

There are certain limitations also in this method, which are as under:

a. The researchers have to have a telephone, which is cost effective because everybody cannot afford this facility.

b. In this case the sample can be biased and imperfect because face-to-face personal contact is not there.

Notes

c. The respondent does not find sufficient time to answer, as he is to answer the questions immediately and there is possibility of supplying information simply based on options and estimation.

d. In the absence of observational information, respondents cannot be classified according to age, education, occupation and economic conditions.

Questionnaire: Under this technique, the respondent is contacted through mail. A questionnaire is despatched to the overseas respondent along with a covering letter explaining the purpose of the study and an envelope. Sometimes, a gift is also offered to the respondent. The respondent sends back the completed questionnaire to the surveyor for analysis.

This method is economical if the response is positive and prompt. The cost is also low per respondent. This method can be extensively used because the distant areas are possible to be covered with limited expenses.

The main drawback of this technique is that the response under this method is quite poor. People are not bothered to answer and send back the questionnaire. Moreover, only limited amount of information can be collected because of lack of response.

5.6.4 Survey Reporting

Information collected through desk research and the field survey is analysed and interpreted to arrive at a meaningful conclusion regarding the various aspects of marketing strategy. Mathematical models may also be profitably used in analysing the data, especially demand data. A survey report is then drawn detailing the data collected and the conclusion drawn.

The utility of survey report is that it enables the firm to arrive at a marketing decision that will help the firm to promote its products in the market to achieve its marketing objectives. The marketing decision may be taken in the following areas:

a. ***Product:*** Product decisions relating to the type of product that can be sold in the overseas market in competition with the other brands, its specifications, and its acceptability in the market.

b. ***Market:*** The market decision relates to the total demand of the product in the market, the firm's share in the market, target customers and on whom effort should be concentrated.

c. ***Price and delivery:*** The decisions relate to the price at which the product can be sold in the market and the interval or periodicity of delivery to ensure that there is no lack of stock in the market.

d. ***Distribution and promotion:*** The distribution decisions relate to the appointment of agents, distributors or to the provisions of warehouses or stockists as the case may be. Decisions as to sales promotion method to be adopted in achieving the market objectives are undertaken in the report. These decisions cover all aspects including advertisement, sales promotion, visual aids, promotional shows, fairs and exhibitions, etc. A combination of these methods is usually adopted to achieve the best results.

Task Conduct a market survey, using a questionnaire, to find out the consumer durables purchase habits of people and their brand preferences (Indian brands vs. foreign brands).

Notes

Self Assessment

Fill in the blanks:

13. …….method of survey is most economical but the response is generally poor.

14. In a survey ……. represents a group of population.

5.7 Marketing Information System

Some firms have developed marketing information systems that provide management with rapid and incredible detail about buyer wants, preferences and behaviour.

Every firm must organise and distribute a continuous flow of information to its marketing managers. Companies study their managers' information needs and design Marketing Information Systems (MIS) to meet these needs. A Marketing Information System (MIS) consists of people, equipment, and procedures to gather, sort, analyse, evaluate, and distribute needed, timely, and accurate information to marketing decision-makers.

Internal Records System

Marketing managers rely on internal reports on orders, sales, prices, costs, inventory levels, receivable payables, and so on. By analysing this information, they can spot important opportunities and problems.

The Order-to-payment Cycle

The heart of the internal records system is the order-to-payment cycle. Sales representative's dealers and customers dispatch orders to the firm. The sales department prepares invoices and transmits copies to various departments. Out-of-stock items are back orders. Shipped items are accompanied by shipping and billing documents that are sent to various departments.

Sales Information Systems

Marketing managers need timely and accurate reports on current sales. Wal-Mart, for example, knows the sales of each product by store and total each evening. This enables it to transmit nightly orders to suppliers for new shipments of replacement stock.

Here are two companies that are using computer technology to design fast and comprehensive sales reporting systems.

Ascom Timeplex, Inc.: Before heading out on a call, sales reps at this telecommunications equipment company use their laptop, computers to dial into the company's worldwide data network. They can retrieve the latest price lists, engineering and configuration notes, status reports on previous orders, and e-mail from anywhere in the company, and when deals are struck, the laptop computers record each order, double-check the order for errors, and send it electronically to Timeplax headquarters in Woodcliff New Jersey.

Montgomery Security: In 1996, San Francisco-based Montgomery Security was in a bind. To remain competitive in the financial sector, this Nations Bank subsidiary had to find a way for more than 400 finance, research, and sales or trading employees to share information about companies whose stock they were considering taking public. The company solved the problem with Sales Enterprise Software from Siebel Systems. With a common database format, everyone could share information and keep confidential information secure.

Notes

Databases, Data Warehouses and Data-mining

Today companies organise their information in databases – customer databases, product databases, salesperson databases and so forth – and then combine data from the different databases. For example, the customer database will contain every customer's name, address, past transactions, and even demographics and psychographics (activities, interests, and opinions) in some instances. Instead of a company sending a mass "carpet bombing" mailing of a new offer to every customer in its database, it will score the different customers according to their purchase regency, frequency, and monetary value. It will send the offer only to the highest scoring customers. Besides saving on mailing expenses, this will often achieve a double-digit response rate.

The Marketing Intelligence System

Whereas the internal records system supplies results data, the marketing intelligence system supplies happenings data. A marketing intelligence system is a set of procedures and sources used by managers to obtain everyday information about developments in the marketing environment. Marketing managers collect marketing intelligence by reading books, newspapers, and trade publications; talking to customers, suppliers and distributors; and meeting with other company managers. A company can take several steps to improve the quality of its marketing intelligence.

First, it can train and motivate the sales force to spot and report new developments. Sales representatives are positioned to pick up information missed by other means. *Second*, the company can motivate distributors, retailers, and other intermediaries to pass on important knowledge about products in stock.

Task Prepare a report on the problems face by researchers in conducting international marketing research.

Self Assessment

Fill in the blanks:

15. The central point of the internal records system is the ……..
16. .....are the set of procedures and sources used by the marketers to get information about the changing marketing environment.

Case Study

Extension Impasse

Krishnan Ranganathan, the vice-president incharge of sales and marketing at Angar Ltd. (Angar), walked into his cabin in the morning and buzzed his secretary at one. "Have Tahamane and Paranjpe arrived"? He asked. "They have, sir," replied Anita. "Shall I ask them to come in?" "Yes. Please call Malhotra at Product Pulse and confirm our 11.30 appointments. Thanks," said Ranganathan, pulling out of his top drawer the market research firm's spiral-bound report that had arrived on his desk two days earlier. Removing his glasses, he rubbed his deep-set eyes. "Shah may have been right after all," he mumbled to himself.

Contd...

Notes

Three months ago, Angar's Chairman and Managing Director, Manubhai Shah, had commissioned Product Pulse — a market research agency — to conduct a study to evaluate the viability of a proposed extension of the company's Glow brand of soaps. At the time, Ranganathan was sure this was the most cost-effective means of making a foray into the health-soap segment, but Shah remained unconvinced. And now, the findings of the survey Product Pulse had conducted appeared to suggest that the platform on which the extension was being planned could prove incongruous with the parent product's attributes and would even dilute Glow's brand equity in the long run. Obviously, the risks were high. "Selling soap used to be such an uncomplicated business," said Ranganathan, even as he invited his two deputies — Arvind Tahamane, General Manager (Sales), and Shankar Paranjpe, General Manager (Marketing) — to sit in the rich wood paneled room. "Put a pretty girl, richly lathered in soap suds, under a running shower, and hey presto!" he said, only half in jest. "But, obviously, the market has changed. There are no sure-fire formulas for success any longer. Brand loyalty appears to have become a thing of the past."

He was right. Over the decade, the 400,000-tonne ₹ 1,300-crore toilet soaps market had witnessed a remarkable transformation. And the change had been particularly dramatic over the last five years. Although the market was growing at 7 per cent per annum, the concept of market segmentation based on pricing — which had primarily influenced positioning strategies in the past — was no longer valid.

Now, consumers made their purchases based on their perception of how well a brand met their individual needs at a price that was seen to be value for money. In other words, it had to promise a functional, rather than a lifestyle, pull. Therefore, the crumbling of the premium and popular platforms had erased brand-pricing associations. And all the soap-brands had veered around to occupy three new platforms — beauty and complexion care, health, and freshness — within which there were a number of niche players at either end of the pricing spectrum.

Fortunately, Angar had been largely unaffected by shifting consumer perceptions and the reformulation of product positioning strategies that had characterised the soaps market. The reason: the company had adopted the beauty and complexion care platform for its marketing and advertising right from the beginning. And each launch in either the premium or regular segments had reinforced this tack under the common brand name, Glow. The sheet anchor of this strategy was so finely tuned that its advertisement baseline — Glow: It Cares for you — had made the company's soaps synonymous with beauty and complexion care.

However, it had taken several years before the company had been able to attain that enviable position. Set up in 1980 by Manubhai Shah, a technocrat-entrepreneur, Angar operated from a sprawling industrial suburb in Chennai. Soon after graduating in chemical engineering from the Victoria Jubilee Institute of Technology in Mumbai in 1975, Shah had joined the family business: a wholesale dealership of cosmetics, toiletries and detergents for a well-known transnational. But all the while, the budding entrepreneur was restless to strike out on his own.

That opportunity presented itself in 1978, when he learnt that his alma mater had developed the technology for the manufacture of a milk-based soap and was looking out for a sponsor to bankroll the ₹ 50 lakh pilot commercial project. Convinced he was on to a winner; Shah borrowed ₹ 10 lakh from his father, leveraged the family's contacts in the trade to raise the rest and got the unit off the ground in early 1979. When the soap was test marketed six months later, Glow — as Shah branded it — met with a fair degree of approbation in the southern region. Shah's gut feeling had been right.

Contd...

Notes

Within a year, sales had exceeded even Shah's wildest imagination. He then went on to become the Chairman and Managing Director of Angar Ltd, which he floated with a public issue of ₹ 10 crore, in which his associates and he chipped in with ₹ 3 crore. However, the credit for strengthening the Glow brand and helping it go national went to Ranganathan. Joining Angar as sales executive based in Mumbai in 1982, during one of the early marketing conferences at the head office, Ranganathan had suggested the idea of introducing a baseline running through all the company's communications.

This, he argued, would sharpen the key attribute of the Glow product range in the future. Recognising the importance of a distribution network in retailing a mass consumer product, Ranganathan had then successfully negotiated to deal with a leading Mumbai-based transnational, which marketed over-the-counter products, that gave Angar access to its 4,000 strong dealer network. In less than three years, Angar was in a position to snap the alliance and tie up with over half the dealers who were selling its products on a non-exclusive basis. Thus, Ranganathan had managed to prune both the time and the costs involved in setting up a distributors system for Angar from scratch, while simultaneously securing long-term distributor loyalty and commitment.

By the middle of 1986, when Ranganathan was tranferred to the headquarters in Madras as marketing manager, Glow had cornered five per cent of the toilet soaps market. With a turnover of ₹ 90 crore for the year ended March 1986, Angar had constructed a 50,000 tonnes per annum manufacturing capacity, some of which was used to produce soaps for its competitors which they marketed under their brand names. More importantly, the R&D division — comprising mostly of technocrats from Shah's alma mater — had developed several new products for the personal wash segment, such as a translucent bathing bar, a pearlescent shower gel, and a face wash.

Despite the beauty and complexion care segment being characterised by fragmented market shares — thanks to well-known competitors like Lux, Mysore Sandal, Moti, Evita, Margo and Pears — Glow had managed to garner 10 per cent of the market by 1990, which was the largest among its peers. It was at that time that Ranganathan, who had risen to become Vice President (Marketing) at Angar, decided to plan a new foray in this segment through some brand extensions. According to his calculations, Ranganathan estimated that Angar could save upto 80 per cent of the cost of entry through brand extensions instead of launching new products. That also meant Angar could sustain a quick pace of launches without elaborate trials, and thus, respond to changing customer needs faster than its rivals.

That was how, by March 1994, Angar had slotted six extensions of Glow in the beauty and complexion care segment, which together accounted for a turnover of ₹ 250 crore. By comparison, Angar's major competitors had barely managed to introduce a couple of brand extensions each. It was in June the same year that the R&D team — which now reported directly to Ranganathan — developed soap with an anti-infection ingredient of therapeutic value that could be used as bath soap. "The health platform is the obvious choice for this product," Ranganathan had told Shah at a closed-door meeting a few weeks after the new soap had been perfected.

"As you know, there are only three popular brands in this category as of now: Nirma Bath, Protex and Lifebuoy. Most developing countries are witnessing a growth in the hygiene, or health, segment. According to one study, the market in this country is expected to grow to ₹ 300 crore in the next two years. Although we have not explored the health platform until now, I feel it makes sense to launch the product as an extension of the Glow brand name," Ranganathan had said, providing figures to show that such an extension would be the most cost-effective option at that point of time.

Contd...

Notes

But Shah, on the other hand, had not reacted favourably to the idea of introducing an extension with product attributes that were incongruous with those of the mother brand. "It could backfire", he had warned, "and not just on this extension, but also on all the others as well as the mother brand." Still, he had enough faith in Ranganathan to agree to an independent market survey in order to gauge how customers would react to the idea. And that was what Product Pulse had been commissioned to do.

At precisely 11.30 a.m., Shah — along with his team of managers — filed into the fourth floor conference room for the meeting with Anil Malhotra, the CEO of Product pulse. A few seconds later, Malhotra and two of his colleagues were ushered into the large airy room and they took their seats across the long oval table. Once the introductions were dispensed with, Shah invited Malhotra to make his opening remarks. "To begin with, there are several questions that ought to be answered when a brand extension is being planned," said Malhotra.

"Is the product unique? Does it offer a functional benefit to the consumer? Is the benefit sustainable? Does it have a central message? Is the message consistent with what the parent brand stands for? Or does it go against it? While the new product you have certainly offers a distinct promise of a benefit to the consumer, its central message of therapeutic value is inconsistent with the brand image of beauty and complexion care. This is evident from the customer survey we undertook in 10 major cities in the country," said Malhotra, as the first slide was projected onto a screen at one end of the room.

"As you can see, we selected a very large sample of 2,500 consumers, each of whom possessed the following attributes: they were in the age group of 18 to 49 years; they were the principal shoppers in the family; they were regular buyers of at least one Glow product; and their gross family income was over ₹ 6,000 a month," said Malhotra, returning to his seat. His senior analyst, Poornima Anand, then went on to explain the nuances of the study, the weightages that were assigned, and the methodology. She then turned to the major factors that determined the respondents' choice of soaps.

Finally, Anand discussed the customer's perceptions of Angar's present range of soaps. "From our next slide, you can see that over 85 percent of the respondents, strongly associated beauty and complexion care with the Glow brand name. Furthermore, therapeutic benefits scored a low 12th in terms of the attributes customers would assign to soaps bearing the Glow brand name. To a specific question whether they would buy a health soap marketed under the Glow brand name, 60 per cent answered in the negative. But when they were asked if they would be willing to try a new anti-infection health soap in the price range that you had indicated, 70 per cent of them said that they would definitely do so," she said.

"The conclusion is obvious," said Malhotra. "The notion of a brand extension does not appear to have been received favourably by your existing customers. On the other hand, the figures appear to indicate that there is a growing awareness — and the need for an anti infection health soap bearing a different brand name, which could enjoy high trial purchases from your target customers." Thanking the Product Pulse team for its presentation, Shah and Ranganathan saw Malhotra and his two colleagues out and then returned to the conference room to join Tahamane and Paranjpe.

"The findings of Product Pulse's survey are invaluable," said Shah. "And as far as the extension of the Glow brand into the heath segment goes, I believe they have hit the nail on the head. While it is obvious that our new anti-infection health soap has a receptive market out there, it is equally clear that we cannot piggyback on the Glow brand name. What do you think, Ranganathan?" he asked.

Contd...

Notes

"While I do not dispute the finding — if anything, they certainly confirm what you have been telling me for the past three months — we must consider the broader implications," said Ranganathan. "If we are to launch a new brand and achieve the volumes for the health soap that we initially envisaged, Angar will have to commit at least ₹ 3 crore for advertising the product this year alone. Is that possible? We are already talking to a number of small-scale units in order to secure their capacities and we also plan to buy into some of their equities. As we are all aware, one of our competitors is already preparing to launch soap in his niche by the third quarter of the next financial year by which time we had hoped to be firmly entrenched…"

"And you are suggesting that if we roll-back our timetable in order to introduce a new brand, we will lose the initiative?" asked Shah.

"Precisely," answered. Ranganathan, "What's more, as we have concentrated our marketing efforts on reinforcing the Glow brand so far, developing a new brand from scratch will require far more dynamism and aggressiveness than we have had to exhibit until now. Are we sure Angar is prepared for that at this point of time? Unless our skills are suitably upgraded, going to the market with a new brand would be risky."

"Perhaps," he continued, after pausing for a moment," even more risky than extending the Glow brand into the health segment. For, if the new brand bombs, it will not only shake the confidence of our marketing team, but it could well jeopardise our entire future blueprint in terms of investments and expansion."

Shah sat in contemplative silence. "I agree with Ranganathan," piped up Tahamane. "Speed is probably our greatest asset: we already have a product in place and a brand that can carry it." "There is another angle we cannot ignore," added Paranjpe. "A sharply-defined anti-infection attribute may spell trouble if new rivals enter the market using the more general platform of health appeal. Remember what happened to Marico's Saffola refined oil? When it was relaunched in 1981 as oil for the health-conscious on the attribute that it helped reduce the risk of heart attacks, it secured big gains in the first few years. But after ITC's Sundrop and Lipton's Flora entered the scene on the platform of all-round good health for the user, Saffola was quickly pushed into a narrow niche — as an oil for only those with heart trouble — and its market share plummeted."

Questions

1. Should Shah and Ranganathan have gone by the market research that Product Pulse had conducted? Or should they have gone against it?
2. How could they minimise the risk of eroding the Glow brand in the event of an extension?
3. What safeguards should they have built into their marketing strategy? And how should Angar have gone about marketing and distributing its new brand?

Source: P K Vasudeva, *International Marketing*, Excel Books.

5.8 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- International Marketing Research is a complete analysis of the market, information regarding the nature, size, organisation, profitability of different markets, changes in the market and various factors – economic, social and political – affecting those changes.
- The main purpose of international market research is to know about consumers and the markets of its products and services.

Notes

- Market survey is a fact-finding mission conducted for the purpose of obtaining all relevant information about the market. The survey may be (a) product oriented or (b) market oriented.
- Former research is often required before decisions can be made regarding specific problems or opportunities. After developing a research plan, data are collected using either primary or secondary sources.
- A number of techniques are available for analysis including demand, income elasticity measurements, and estimation by analogy, comparative analysis and cluster analysis.
- Research findings must be presented clearly to facilitate decision-making international marketing research presents a number of challenges.
- First is the simple fact that research on a number of markets may be required some of which are so small that only modest research expenditures can be made. Secondary data for some countries may be distorted; also, comparability may be an issue.
- A final issue is how control headquarters will have control over research and overall management of the organisations information system.

5.9 Keywords

Causal Research: It seeks to find cause and effect relationships between variables.

Descriptive Research: It describes data and characteristics about the population or phenomenon being studied.

Exploratory Research: It provides insights into and comprehension of an issue or situation.

International Marketing Research: The systematic design, collection, recording, analysis, interpretation and reporting of information pertinent to a particular marketing decision facing a company operating internationally.

Market Information Systems: An information system concerned with the collection, storage, and analysis of information and data for marketing decisions.

Market Research: A systematic process of gathering, recording and analyzing data about problems related to the marketing of goods and services.

Primary Data: Information collected for a specific purpose, to address the problem at hand.

Research: Systematic and objective investigation of a subject or problem to discover relevant information for principles.

Secondary Data: Data collected for a problem other than the problem at hand.

Survey: The collection of data from a given population for the purpose of analysis of a particular issue.

5.10 Review Questions

1. What do you mean by international marketing research? Why do marketers go for such research?
2. Discuss the scope of international marketing research.
3. How is international marketing research carried out? Discuss in brief.
4. Compare and contrast the different methods of conducting a survey.

Notes

5. How has marketing information systems helped the marketers? Give examples.
6. What do you understand by international marketing research?
7. Discuss the role of international marketing research in determining international marketing policies.
8. What is the need and importance of market research for export business?
9. Describe the various steps involved in the international market research.

Answers: Self Assessment

1.	False	2.	True
3.	True	4.	False
5.	True	6.	False
7.	True	8.	True
9.	False	10.	False
11.	True	12.	False
13.	Questionnaire	14.	Sample
15.	Order to Payment cycle	16.	Marketing Intelligence Systems

5.11 Further Readings

Books

Charles W.L. Hill, *International Business Competing in the Global Marketplace*, 4th Edition, Tata McGraw-Hill Publishing Company Limited

Chase Richard, Jacob Robert, Aquillano and Agarwal Nitin, *Operations Management*, 11th Edition, Tata McGraw-Hill Publishing Company Limited

Justin Paul, *International Business*, 3rd Edition, Prentice Hall of India

Vasudeva, PK, *International Marketing*, Excel Books, New Delhi, 2010

Online links

http://uwacadweb.uwyo.edu/mpeterson/Marketing%20Research/Ch.%207%20Observation/International%20Marketing%20Research.pdf

faculty.washington.edu/giambatt/mktg470/Lascu_Chapter_06.ppt

home.kku.ac.th/markre/Kotabe_GMM4_PPt_Ch06.ppt

web.itu.edu.tr/~elmadaga/International/.../IM_Ch6.ppt

Notes

Unit 6: Negotiation and Decision Making

CONTENTS

Objectives

Introduction

6.1 Concept of International Marketing

6.2 Process of International Marketing

6.3 Tools of International Market Analysis

6.4 Summary

6.5 Keywords

6.6 Review Questions

6.7 Further Readings

Objectives

After studying this unit, you will be able to:

- Explain the concept of international marketing
- Discuss the process of international marketing
- Elaborate the tools of international marketing analysis

Introduction

Under the marketing concept, the firm must find a way to discover unfulfilled customer needs and bring to market products that satisfy those needs. The process of doing so can be modelled in a sequence of steps: the situation is analyzed to identify opportunities, the strategy is formulated for a value proposition, tactical decisions are made, the plan is implemented and the results are monitored.

6.1 Concept of International Marketing

International marketing (IM) or **global marketing** refers to marketing carried out by companies overseas or across national borderlines. This strategy uses an extension of the techniques used in the home country of a firm. It refers to the firm-level marketing practices across the border including market identification and targeting, entry mode selection, marketing mix, and strategic decisions to compete in international markets. According to the American Marketing Association (AMA) "***international marketing*** *is the multinational process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.*" In contrast to the definition of marketing only the word *multinational* has been added. In simple words international marketing is the application of marketing principles to across national boundaries. However, there is a crossover between what is commonly expressed as international marketing and global marketing, which is a similar term.

Notes

The intersection is the result of the process of internationalization. Many American and European authors see international marketing as a simple extension of exporting, whereby the marketing mix 4P's is simply adapted in some way to take into account differences in consumers and segments. It then follows that global marketing takes a more standardised approach to world markets and focuses upon sameness, in other words the similarities in consumers and segments.

Differences between Domestic Marketing and International Marketing

International marketing strategies are developed by various multinational companies on a global level in order to set a common brand platform for their products and brands. It is then passed on to each local or domestic market which makes adjustments for their country and manages its implementation. Such a structure ensures a global brand consistency, pricing and messaging. It also can have significant cost savings as major advertising and marketing campaigns can be developed centrally.

Globalization has created new marketing behaviours, opportunities and challenges thereby making international marketing somewhat different from domestic marketing. Due to deregulation and technological advances in transportation and communication, companies can market in, and consumers can buy from almost any country in the world. In this situation of heightened competition, it is important for companies to offer products that would be of interest in the global marketplace and also adjust their product and service features to each country's different cultures and values. They must choose what to produce, and how to price and communicate their products considering the different legal and political differences, language, and currency fluctuations.

Entering into International Market

A mode of entry into an international market is the channel which your organization employs to gain entry to a new international market. This lesson considers a number of key alternatives, but recognizes that alteratives are many and diverse. Here you will be consider modes of entry into international markets such as the Internet, Exporting, Licensing, International Agents, International Distributors, Strategic Alliances, Joint Ventures, Overseas Manufacture and International Sales Subsidiaries. Finally we consider the Stages of Internationalization.

It is worth noting that not all authorities on international marketing agree as to which mode of entry sits where. For example, some see franchising as a stand-alone mode, whilst others see franchising as part of licensing. In reality, the most important point is that you consider all useful modes of entry into international markets - over and above which pigeon-hole it fits into.

Most executives are quite clear that international marketing is different from home-country marketing, and most multinational companies insist that their senior managers have international experience on their resumes. Despite this pragmatic recognition of the uniqueness of the international marketplace, there has been little agreement over the exact nature of this distinctiveness. Although the question has been long and inconclusively discussed by academics and business analysts, agreement has been limited to the valid but rather obvious observation that international marketing, as opposed to marketing in a single country, takes place in an environment of increased complexity and uncertainty, in areas as varied as consumer behavior and government regulation. This suggests that the differences between domestic and international marketing are differences of degree rather than underlying differences of kind. In fact, there are certain distinctive characteristics in international operations that, while they may not establish international marketing as a separate theoretical subdomain of marketing, nevertheless have a great bearing on managerial decisions.

Notes

Penetration of a foreign market is a zero-base process. At the point of market entry, the foreign entrant has no existing business and little or no market knowledge, particularly with regard to the managerial competence necessary to operate in the new market environment. During the years after market entry, therefore, the rate of change in the country-specific marketing capability of the firm is likely to be greater than the rate of change in the market environment, and firm effects may dominate market effects in shaping strategy. This is particularly important given the business context, in which the generation of new business is of prime importance-rather than efficiency in managing a relatively stable business. This usually results in (a) entering the market via a partnership with a local distributor or other marketing agent rather than via a directly controlled marketing unit and (b) a relatively rapid sequence of changes to the marketing strategy (such as new product introductions or expansion of distribution) or to the marketing organization (e.g. taking over marketing responsibility from the local distributor).

From the time a company enters its second country-market, it will inevitably be influenced by its previous experience. The greater the number of national markets in which a company participates, the more likely it is to seek to manage them as an aggregated network rather than as independent units. Marketing strategy decisions in one country-market may in this case be made against extra-market criteria. For example, price levels may be set to minimize the difference among markets and to maintain a price corridor rather than purely to reflect local market conditions. Similarly, a multinational company may subsidize price levels in one market for strategic reasons while recouping that loss in another market. This ability to leverage a global network is sometimes described as "the global chess game, "and it is increasingly regarded as one of the key advantages enjoyed by a global firm relative to local players, partly because of the increasing globalization of firms and their consequent opportunities to integrate national operations. In practice, this frequently results in asymmetric competition in any single market, with different companies pursuing different objectives and setting different performance standards. As discussed later in this unit, it is possible that one company may be participating in the market simply to learn, and it may therefore tolerate low profitability, while others are pursuing more conventional profit maximization goals.

Companies enter international markets for varying reasons, and these different objectives at the time of entry should produce different strategies, performance goals, and even forms of market participation. Yet, companies frequently follow a standard market entry and development strategy. The most common, which will be described in the following section, is sometimes referred to as the "increasing commitment" pattern of market penetration, in which market entry is via an independent local distributor or partner with a later switch to a directly controlled subsidiary. This approach results from an objective of building a business in the country-market as quickly as possible but nevertheless with a degree of patience produced by the initial desire to minimize risk and by the need to learn about the country and market from a low base of knowledge. These might be described as straightforward financial objectives that are oriented around long-run profit maximization in the country, so this internationalization strategy could be described as the default option.

The fundamental reason for entering a new market has to be potential demand, of course, but nevertheless it is common to observe other factors driving investment and performance measurement decisions, such as:

1. ***Learning in Lead Markets:*** In some circumstances, a company might undertake a foreign market entry not for solely financial reasons, but to learn. For example, the white goods division of Koc, the Turkish conglomerate, entered Germany, regarded as the world's leading market for dishwashers, refrigerators, freezers, and washing machines both in terms of consumer sophistication and product specification. In doing so, it recognized that its unknown brand would struggle to gain much market share in this fiercely competitive market. However, Koc took the view that, as an aspiring global company, it would

Notes

undoubtedly benefit from participating in the world's lead market and that its own product design and marketing would improve and enable it to perform better around the world.4 In most sectors, participation in the "lead market" would be a prerequisite for qualifying as a global leader, even if profits in that lead market were low. The lead market will vary by sector: the United States for software, Japan for consumer electronics and telecommunications, France or Italy for fashion, and so on.

The important point about such an objective for market entry is that it will change the calculus of the market entry mode decision. If a company is to maximize learning from a lead market, for example, it will need to participate with its own subsidiary and a cadre of its own executives. Learning indirectly, via a local distributor or other partner, is obviously less effective and will contribute less to the company's development as a global player, even if short-term profitability is superior because of the lower investment required.

2. ***Competitive Attack or Defense:*** In some situations, market entry is prompted not by some attractive characteristics of the country identified in a market assessment exercise, but as a reaction to a competitor's move. The most common scenario is market entry as a follower move, when a company enters the market simply because a major competitor has done so. This is obviously driven by the belief that the competitor would gain a significant advantage if it were allowed to operate alone in that market, and so it is most common in concentrated or even duopolistic industries. Another frequent scenario is "offense as defense," in which a company enters the home market of a competitor-usually in retaliation for an earlier entry into its own domestic market. In this case, the objective is also to force the competitor to allocate increased resources to an intensified level of competition. In both cases, a company will have to adapt its strategies to the particular strategic stakes: rather than focusing on market development, the firm will set market share objectives and be prepared to accept lower levels of profitability and higher levels of marketing expenditure. This requires different performance standards and budgets from the usual scenario of low-risk entry and long-run development, and the company's control system must have sufficient flexibility to adapt to this. The overriding competitive objective should also be taken into account when considering whether and how to participate in the market with a local distributor or partner. Certainly, the low-intensity entry modes, such as import agents and trading houses, would be inappropriate unless the local partner will accept the lower profit expectations.

3. ***Scale Economies or Marketing Leverage:*** A number of objectives result from internationalization undertaken as what is sometimes described as a "replication strategy," in which a company seeks a larger market arena in which to exploit an advantage. In many manufacturing industries, for example, internationalization can help the company achieve greater economies of scale, particularly for companies from smaller domestic country-markets. In other cases, a company may seek to exploit a distinctive and differentiating asset (often protected as intellectual property), such as a brand, service model, or patented product. In both cases, the emphasis is on "more of the same," with relatively little adaptation to local markets, which would undermine scale economies or diminish the returns from replication of the winning model. To achieve either of these objectives, a company must retain some control, so it may enter markets with relatively high-intensity modes, such as joint ventures. In particular, either franchising or licensing are business models naturally suited for the rapid replication of businesses through expansion of units since both are centered on protected and predefined assets.

Apart from these varied marketing objectives, it is also common for governments to "incentivize" their country's companies to export, in which case the company may enter markets it would otherwise not have tackled. In summary, given the rapid business

Notes

evolution that has been identified as one of the distinctive characteristics of international markets, it is reasonable to suppose that, for most companies, international operations will consist of a patchwork of country-market operations that are pursuing different objectives at any one time. This, in turn, would suggest that most companies would adopt different entry modes for different markets. More commonly, however, companies have a template that is followed in almost all markets. This usually starts with market entry via an indirect distribution channel, usually a local independent distributor or agent.

In practice, these unique objectives mean that marketing strategy in the international arena changes rapidly as the business grows or fails to grow. Importantly, it is driven not only by market characteristics (the basis for marketing strategy in the pure or theoretical sense), but also by organizational development, as the economics and knowledge of the local marketing unit develop. Indeed, it is usually impossible to separate the process of market development from the process of organizational development. It is possible, however, to identify commonalities across companies in this process of internationalization and so to describe the usual evolution of international marketing strategy. Such a framework has to begin by recognizing that different objectives for market entry may produce quite different outcomes in terms of entry mode and marketing strategy.

Self Assessment

Fill in the blanks:

1. The ..... is the result of the process of internationalization.
2. ..... has created new marketing behaviours, opportunities and challenges thereby making international marketing somewhat different from domestic marketing.
3. There is a ..... between what is commonly expressed as international marketing and global marketing, which is a similar term.

Caselet

Tanzanian Sisal

The once world leading Tanzanian Sisal Industry is a classic example of failure due to its inability to monitor market trends, through lack of an adequate intelligence system, as well as many, in-country problems. Basically, it failed to take account of the shrink in demand for sisal fibre in Western Europe. Many sisal mills were being dosed because of the fact that they were old and labour intensive (hence uneconomic), and the: disintegration of markets for sisal fibre in Eastern Europe due to that region's political crises. Sisal was brought into Tanzania by a German Agronomist, Dr. Richard Hingdorf in 1892 and the first estates were established in Tanga and Morogoro regions. After World War I, most estates were sold to Greeks, Swiss, and Dutch. British and Asians, although a number of Germans re-acquired their estates from 1926 onwards. From that time, up to and after World War I, Tanzania remained the world's leader in both production and exports.

In the early 60's sisal was Tanzania's largest export, accounting for over a quarter of foreign exchange. Production was around 200000–230000 tonnes per annum. However, during the 70's and 80's production dropped dramatically. In 1970's production was at 202 000 tonnes, in 1979 it was 81000 tonnes, by 1985 production was at 32000 tonnes, a drop

Contd...

Notes

of 87% from the peak of 230000 tonnes in 1964. Since then production has stagnated at around 30000–33000 tonnes per annum. Needless to say Tanzania has long since ceased to be the number one world producer and its export earnings fallen well behind that of coffee, cotton tea, tobacco and cashew nuts. Since 1985 Tanzania has been producing 7–9% of the world's sisal fibre exports and is in fourth place behind Brazil, Morocco and Kenya.

The decline in sisal production came in two stages, an initial stage up to 1987 and then 1990 onwards. Both internal and external factors account for the decline. In the initial stage, the internal factors included the nationalisation of some of the sisal estates in the late 1960's, an overvalued exchange rate, high export taxes and a controlled single channel marketing system. In the second stage, liquidity problems affected production. However, the external factors in the two periods had the most significant effect and show clearly the consequences of an ill prepared intelligence system. In the initial stage up to 1987 Tanzania experienced declining world prices of sisal fibre and the introduction of a substitute, cheap synthetic fibre -polypropylene twines. These factors led to low investment in replanting, leaf transport facilities and factory machines at the estate level. In the second stage of the 1990's onwards, the collapse of the former USSR, one of the major markets for Tanzania sisal fibre and changing world demand were the major factors. An inability to pick up these changes in demand by the intelligence system was a major player in the industry collapse. However, there is a ray of hope with a new swing worldwide to more "greener" and more environmentally friendly products. Tanzania sisal could make a comeback.

Source: http://www.fao.org/docrep/W5973E/w5973e09.htm#chapter 5: identifying market opportunities through marketing information system

6.2 Process of International Marketing

Following are the steps of International Marketing:

Identifying the International Markets

Analyzing international marketing opportunities to identify unfulfilled or under fulfilled needs that a marketer may satisfy through its products or services. This analysis can be done through information seeking and analysis or through market research (secondary or primary data collection and analysis). A marketer may have a product or service concept developed first and looks for the needs in the market that can be satisfied by these products or services. The marketer may also first identify unfulfilled or under fulfilled needs in the market and then develop a suitable product or service offer to satisfy these identified needs.

The World is your oyster. You can choose any country to go into. So you conduct country identification – which means that you undertake a general overview of potential new markets. There might be a simple match – for example two countries might share a similar heritage, e.g. the United Kingdom and Australia, a similar language, e.g. the United States and Australia, or even a similar culture, political ideology or religion, e.g. China and Cuba. Often selection at this stage is more straightforward.

Example: A country is nearby, e.g. Canada and the United States. Alternatively your export market is in the same trading zone, e.g. the European Union. Again at this point it is very early days and potential export markets could be included or discarded for any number of reasons.

Notes

Segmentation of International Markets

There are two main approaches to global segmentation:

Macro Approach

Countries can be seen as segments.

Example: There will only be a large market for expensive pharmaceuticals in countries with certain income levels, and entry opportunities into infant clothing will be significantly greater in countries with large and growing birth-rates.

There are, however, significant differences within countries.

Example: Although it was thought that the Italian market would demand "no frills" inexpensive washing machines while German consumers would insist on high quality, very reliable ones, it was found that more units of the inexpensive kind were sold in Germany than in Italy—although many German consumers fit the predicted profile, there were large segment differences within that country.

Micro Approach

This approach caters to segments within countries. This can be approached in two ways:

- ***Intra-market Segmentation:*** This involves segmenting each country's markets. Here the company entering a new market segments that market to attain greater understanding of it.

Example: An American firm going into the Indian market would research to segment Indian consumers without incorporating knowledge of U.S. buyers.

  Here the idea is that every country's market is different from the others and that it hence demands to be approached differently. This approach is a long term strategy and involves a lot of research and investment.

- ***Inter-market Segmentation:*** This involves the detection of segments that exist across borders.

Notes It may be noted that not all segments exist in one country will exist in another and that the sizes of the segments may differ significantly.

Example: There is a huge small car segment in India; while it is considerably smaller in the U.S. Inter-market segmentation entails several benefits.

The fact that products and promotional campaigns may be used across markets; introduces economies of scale, and learning that has been acquired in one market may be used in another—e.g. a firm that caters to a segment of premium quality cell phone buyers in one country can put its experience to use in another country that features that same segment. (Even though segments may be similar across the cultures, it should be noted that it is still necessary to learn about the local market.

Example: For a product, although a segment common across two countries may seek the same benefits, the cultures of each country may cause people to respond differently to it.

Notes

Selection of International Markets

Once the marketer has identified the potential opportunities in the first step now is the time to select the groups of potential international customers (target markets) to whom to sell the products or services.

This step also involves identifying the potential buyers, demand measurement & forecasting, market segmentation, market targeting & market positioning.

Now a final shortlist of potential nations is decided upon. Managers would reflect upon strategic goals and look for a match in the nations at hand. The company could look at close competitors or similar domestic companies that have already entered the market to get firmer costs in relation to market entry. Managers could also look at other nations that it has entered to see if there are any similarities, or learning that can be used to assist with decision-making in this instance. A final scoring, ranking and weighting can be undertaken based upon more focused criteria. After this exercise the marketing manager should probably try to visit the final handful of nations remaining on the short, shortlist.

Segmentation involved identifying groups of potential customers from the total potential market that are homogeneous on certain aspects of identity and behaviour and are heterogeneous on the same aspects from others in the target population. This step also requires the marketers to decide what key benefits in a product or service to offer to the selected target customers and on what aspects to differentiate from the competition.

Caution The aspects on which the segments are based must be relevant for the marketer to develop its products and services and the marketing programs.

Since a firm needs to offer best value to the potential customers to make its products and services more saleable compared with competitors, firms have to adopt appropriate business and marketing strategies.

Many activities are to be undertaken in a firm by many people and in a number of departments to produce and deliver final products and services to its customers, this requires aligning and coordinating numerous activities and efforts. At the same time to achieve best value for the buyer and bet profits for the firms, the firm needs to optimize all the activities, efforts undertaken and resource utilization. This requires the firm to adopt a coherent and appropriate logic or strategy to direct and control the alignment, coordination and optimization of its business and marketing effort.

Various researchers have studied successful companies around the world and attempted to identify how these firms have aligned and coordinated their activities and efforts. Porter has concluded that successful firms have adopted one of the three strategies, i.e. cost leadership, differentiation or focus. Other scholars have identified that successful firms adopted strategies that were aligned with their market position, i.e. a market leader, challenger, follower & nicher strategies. Other researchers have asserted that firms have achieved success in markets through adopting on of the three value discipline strategies, i.e. operational excellence, customer intimacy or product leadership. Details on these strategies may be found in strategy subject and books.

Developing the International Marketing Mix

The fourth step in the marketing process is developing the international marketing mix, product, place, price & promotion. Marketing mix identifies four key areas for developing a well coordinated marketing strategy. To create a strong marketing impact a firm needs to develop

Notes

appropriate programs in these four key areas and also need to ensure that all these four aspect of a firms marketing program are well coordinated and in conformity with each other to give a clear image to the target market of the firm's brands and its products.

Developing a good marketing program is not good enough for success. A firm also needs to manage the international marketing effort properly. Quite often firms fail not because they did not have a viable marketing program, but that they failed in properly implementing their well designed plans.

Task Take a product/market of your choice. Describe fully the process involved in attempting to assess the market potential and developing a marketing strategy for that product/market in any country of your choice. The product may be an import or an export.

Self Assessment

State whether the following statements are true or false:

4. Developing a good marketing program is good enough for success.
5. A marketer may have a product or service concept developed first and looks for the needs in the market that can be satisfied by these products or services.
6. Porter has concluded that successful firms have adopted one of the three strategies, i.e. cost leadership, differentiation or focus.
7. The third step in the marketing process is developing the international marketing mix, product, place, price & promotion.

6.3 Tools of International Market Analysis

International Market analysis tools allow a company to review external factors that dictate how it sells goods or services to consumers. A few common tools include independent studies, PEST analysis, or the use of a third-party company. Each of these market analysis tools provides companies with specific information for making decisions. In short, they add knowledge to the company's decision support system. More information adds to an individual's or company's business intelligence, allowing them to be more informed and competitive in the overall economy.

Independent studies often look at a single aspect of a larger market, population, or economy.

Example: A company may desire information on a specific group of consumers, market location, or international economy. International market analysis tools in the independent study then focus on the requisite information for the desired target. Demographics, information on competitors, availability of resources, and other data may all be a part of the independent study. These studies may include several smaller pieces that make up a much larger report for use by a company's management team.

Did u know? PEST stands for political, economic, social, and technological factors that can affect a company.

Notes

All markets tend to have some or all of these factors in them. Political factors include any intervention by a government agency. Regulations, laws, or taxes may all play a part, both positively and negatively. Economic factors include inflation, money supply, fiscal policy, and other items often out of the control of the company. In many cases, the government may be involved in both of these two factors.

Social factors in PEST market analysis tools often deal with the perceptions of consumers about a company or its products. This can also include environmental factors, such as the use of natural resources by a company. Technological factors represent any use of technology by the company or its competitors. A company that fails to implement technology, for example, may lose market share because other companies leverage those opportunities. Market analysis tools using this approach can have information from multiple markets or economic environments.

In some cases, a company may discover it simply does not have the tools to conduct a market analysis. When this is the situation, third-party companies or consultants can tailor market analysis tools for the business. This allows a company to pay for a multitude of tools that include all the important data. Though third-party resources can be expensive, they may have more knowledge or expertise in these areas. Therefore, the information is better and provides more knowledge than an internal report.

Self Assessment

Fill in the blanks:

8. International ..... analysis tools allow a company to review external factors that dictate how it sells goods or services to consumers.
9. ..... factors include any intervention by a government agency.
10. In some cases, a ..... may discover it simply does not have the tools to conduct a market analysis.

Case Study

Siemens PLM Software Combines Global and Local with Eloqua's Marketing Automation

When you're selling complex software that helps companies innovate and build world-class products, consistency and clarity of marketing communications is a must. Maintaining that message consistency is a challenge for any company, but for Siemens PLM Software it's compounded by a large, global marketing organization that supports regional programs across diverse geographies. The provider of Product Lifecycle Management (PLM) software needs to tell its story on a global scale, across multiple languages and in a way that is contextually relevant to a variety of different industry segments and international audiences.

For the Siemens PLM Software global marketing organisation, driving universal brand and message consistency was an elusive target. A one-size-fits-all marketing message didn't work across the myriad of challenges faced by customers and prospects and the unique requirements for each industry, region and regulatory compliance issues. While marketers in different countries and regions were enjoying moderate success with independent campaigns, their isolated marketing activities were spawning silos of customer

Contd...

Notes

data and preventing Siemens PLM Software from effectively building a consistent worldwide brand.

To make matters worse, the problem really couldn't be solved with the infrastructure in place at Siemens PLM Software a year ago. Marketers were primarily using e-newsletter and web design tools to orchestrate the company's diverse global marketing initiatives. The lack of automation made it next to impossible to choreograph communication with customers, let alone reuse and replicate messaging across different regions.

The Solution

To get more control over its global messaging, Siemens PLM Software decided to consolidate customer data and standardise on Eloqua's marketing automation platform. Using this unified platform, the various marketing teams would gain access to a shared set of customer and prospect data, universal campaign templates, website forms and marketing best practices that would ensure consistency of message. At the same time, Eloqua provided the flexibility Siemens PLM Software needed to tailor its messaging to meet the business requirements and special nuances of various global markets.

Eloqua's ability to automatically trigger any sequence of communications based on pre-defined rules enables Siemens to seamlessly execute their lead nurturing strategy and keep prospects engaged. These powerful automation capabilities also help the company efficiently orchestrate campaigns that are global in size and scope. A flexible forms engine helps ensure that relevant information is captured from customers without making it an onerous experience.

The results

Siemens PLM Software's first major programme with Eloqua was comprised of a series of microsites, emails and search campaigns architected around the stages of a buyer's journey. The communications were aimed at both large enterprise prospects as well as small- and mid-sized companies. Visitors were prompted to register at different touch points to download customer case studies, analyst commentary or product information specific to their industry.

The scale and global nature of the campaign contributed to its complexity. The initiative spanned 22 global sites, each with its own language requirements. While the core brand and sequencing of the campaign remained consistent, Eloqua dynamically tailored messaging to meet language and content preferences of recipients. These preferences were continually refined with prospect profile and activity information captured by Eloqua forms and analytics.

As the team honed its skills and proficiency with Eloqua, it leveraged the product's advanced content management and workflow features to simplify execution and gain greater control when deploying massive, global campaigns. For example, through more efficient use of Eloqua forms, the team streamlined a global program requiring hundreds of localized landing pages and forms down to just two forms – without sacrificing the personalisation critical to achieving high response rates.

Moreover, the team was able to scale back on the manpower required to orchestrate such an intricate campaign. A campaign that required field marketers in 30 countries to spend up to 100 hours localising and personalising content, can now be executed centrally in less than 10 hours.

Eloqua has also contributed greatly to increasing overall lead volumes and reducing the cost per lead from as high as $300 to less than $30. By centralising all lead capture tactics on

Contd...

Notes

a single, unified database and transitioning from events, conferences and seminars to digital marketing strategies, Siemens PLM has been able to develop more efficient, cost effective campaigns.

Most importantly, Eloqua ensures that all leads, independent of cost, are consistently acted upon in a personalized, targeted – but brand consistent – manner.

Client quotes

"We wanted a flow of real-time communications-not just a one-off event. If someone responds to an offer on the first day of the campaign, they get a follow-up response five days later. If they respond on second day they get a follow up response five days after that, not on some arbitrary date."

"The biggest benefit of Eloqua is that it has allowed us to completely automate what we used to do manually, increasing efficiencies and lowering our costs. It has made the results of our online marketing actionable."

– Christian Kelley, Siemens PLM Software's vice president of demand generation

Question

1. Highlight the main issues of the case study and suggest your own solution.

Source: http://www.b2bmarketing.net/knowledgebank/international-marketing/case-studies/case-study-siemens-plm-software-combines-global-a

6.4 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- When multinational companies segment their target markets and position their products, cross-cultural literacy is necessary, which is a concept of globalisation, requiring a company to "think globally and act locally".
- Without an understanding of cultural and structural differences between countries, even leading global corporations can fail in specific markets.
- Analyzing international marketing opportunities to identify unfulfilled or under fulfilled needs that a marketer may satisfy through its products or services.
- There are two main approaches to global segmentation: macro and micro approach.
- Once the marketer has identified the potential opportunities in the first step now is the time to select the groups of potential international customers (target markets) to whom to sell the products or services.
- The fourth step in the marketing process is developing the international marketing mix, product, place, price & promotion. Marketing mix identifies four key areas for developing a well coordinated marketing strategy.
- International Market analysis tools allow a company to review external factors that dictate how it sells goods or services to consumers.
- PEST stands for political, economic, social, and technological factors that can affect a company.
- Social factors in PEST market analysis tools often deal with the perceptions of consumers about a company or its products.

Notes

6.5 Keywords

Cross Border: This term refers to any financing arrangement that crosses national borders.

Inter-market Segmentation: This involves the detection of segments that exist across borders.

International Marketing: International Marketing or global marketing refers to marketing carried out by companies overseas or across national borderlines.

Intra-market Segmentation: This involves segmenting each country's markets. Here the company entering a new market segments that market to attain greater understanding of it.

PEST: It stands for political, economic, social and technological factors.

Segmentation: The process of defining and subdividing a large homogenous market into clearly identifiable segments having similar needs, wants, or demand characteristics.

Target Market: A target market is a group of customers that the business has decided to aim its marketing efforts and ultimately its merchandise towards.

6.6 Review Questions

1. How to identify potential markets for the increased exports?
2. How to reach these markets with the price, promotion, distribution and product as required by them?
3. Discuss the process of International Marketing.
4. What are the tools of International Marketing analysis?
5. "Developing a good marketing program is not good enough for success". Elaborate this statement.
6. Write a short note on PEST.
7. Give few examples of international market segmentation.

Answers: Self Assessment

1.	Internationalization	2.	Globalization
3.	Crossover	4.	False
5.	True	6.	True
7.	False	8.	Market
9.	Political	10.	Company

6.7 Further Readings

Books

Albaum, G., Strandskov, J., Duerr, E. and Dowd, L, *International Marketing and Export Management*, Addison-Wesley, 1989

Carlson, S. "How Foreign Is Foreign Trade? A Problem in International Business Research". ACTA Universitatis Upsalinsis, Studia Oeconomiae Negotiorum, 1975

Notes

Cateora and Graham, *International Marketing*, McGraw Hill, 2007

Charles W.L. Hill, *International Business Competing in the Global Marketplace*, 4th Edition, Tata McGraw-Hill Publishing Company Limited

Chase Richard, Jacob Robert, Aquillano and Agarwal Nitin, *Operations Management*, 11th Edition, Tata McGraw-Hill Publishing Company Limited

Haner. "In International Marketing", S.J. Paliwoda Heinneman, 1986

Hibbert, E.P. "The Principles and Practice of Export Marketing". Heinneman, 1985

Justin Paul, *International Business*, (3rd ed.), Prentice Hall of India

Ngirwa, W. "Sisal Marketing in Tanzania: Current Constraints and possible solutions" December 1994 pp1-9

Vasudeva, PK, *International Marketing*, Excel Books, New Delhi, 2010

Wind, Y. and Douglas, S. "International Portfolio Analysis and Strategy: The Challenge of the -80s". *Journal of International Business Studies,* Vol. 12 all), pp 69-82

Online links

http://www.zainbooks.com/books/marketing/international-marketing_4_five-steps-of-the-international-marketing-process.html

http://www.zainbooks.com/books/marketing/international-marketing.html

http://www.fao.org/docrep/W5973E/w5973e09.htm#chapter 5: identifying market opportunities through marketing information system

http://www.wisegeek.com/what-are-the-different-types-of-market-analysis-tools.htm

http://www.marketingteacher.com/lesson-store/lesson-international-marketing-entry-evaluation-process.html

Notes

Unit 7: Product Strategy for International Markets

CONTENTS

Objectives
Introduction
7.1 Products: National and International
7.1.1 National Products
7.1.2 International Products
7.2 New Product Development
7.3 International Product Planning
7.4 Product Adoption vs Standardization
7.4.1 Product Adoption
7.4.2 Standardization
7.5 International Product Marketing
7.6 Factors influencing Product Adaptation in International Markets
7.7 Trade-off Strategy
7.8 IPLC
7.9 Product Strategy
7.9.1 Why is a Product Strategy Important?
7.9.2 Elements of a Product Strategy
7.9.3 Creating your Product Strategy
7.9.4 Power of the Product Strategy
7.10 Summary
7.11 Keywords
7.12 Review Questions
7.13 Further Readings

Objectives

After studying this unit, you will be able to:

- Differentiate between national and international products
- Discuss concepts of new product development, product planning, and product adoption and standardization
- Discuss the concept of international product marketing
- Explain the factors influencing Product adaptation in international marketing
- Focus on trade-off Strategy, IPLC and Product Strategy

Introduction

A product can be defined in terms of its tangible, physical attributes – such things as weight, dimensions and materials. Thus, an automobile could be defined as 3,000 pounds of metal or

plastic, measuring 190" long, 75" wide and 59" high. However, any description limited to physical attributes gives an incomplete account of the benefits a product provides. At a minimum, car buyers expect an automobile to provide safe, comfortable transportation, which derive from physical features such as air bags and adjustable seats. However, marketers cannot ignore status, mystique, and other intangible product attributes that a particular model of automobile may provide. Indeed, major segments of the auto market are developed around these intangible attributes.

A product, then, can be defined as a collection of physical, psychological, service, and symbolic attributes that collectively yield satisfaction, or benefits, to a buyer or user. A number of frameworks for classifying products have been developed. A frequently used classification is based on users and distinguishes between consumer and industrial goods.

Both types of goods, in turn, can be further classified on the basis of other criteria, such as how they are purchased (convenience, preference, shopping and specially goods) and their life span (durable, non-durable and disposable). These and other classification (frameworks developed for domestic marketing are fully applicable to international marketing).

7.1 Products: National and International

In marketing, a product is anything that can be offered to a market that might satisfy a want or need. Following are the categories of products based on their nationality:

7.1.1 National Products

A national product is one that, in the context of a particular company, is offered in a single national market. Sometimes national products appear when a global company caters to the needs and preferences of particular country markets.

Example: Coca-Cola developed a non-carbonated, ginseng-flavoured beverage for sale only in Japan and a yellow, carbonated flavoured drink called Pasturina to compete with Peru's favourite soft drink, Inca Cola.

Such examples notwithstanding there are several reasons why national products-even those that are quite profitable-may represent a substantial opportunity cost to a company. First, the existence of a single national business does not provide an opportunity to develop and utilize international leverage from headquarters in marketing, R&D, and production. Second, the local product does not allow for the transfer and application of experience gained in one market to other markets. A third shortcoming a single-country product is the lack of transferability of managerial expertise acquired in the single-product area.

7.1.2 International Products

International or regional products are offered in multinational, regional markets. The classic international product is the Euro product, offered throughout Europe but not in the rest of the world. The Renault is a Euro product: Offered in every EU market, it is clearly an international product; however, unlike the Toyota, for example, it is not an international product.

Notes A product is not a brand.

Notes

Example: A portable personal sound or personal stereos are a category of international product; Sony is an international brand. An international brand, like a national or international brand, is a symbol about which customers have beliefs or perceptions.

Self Assessment

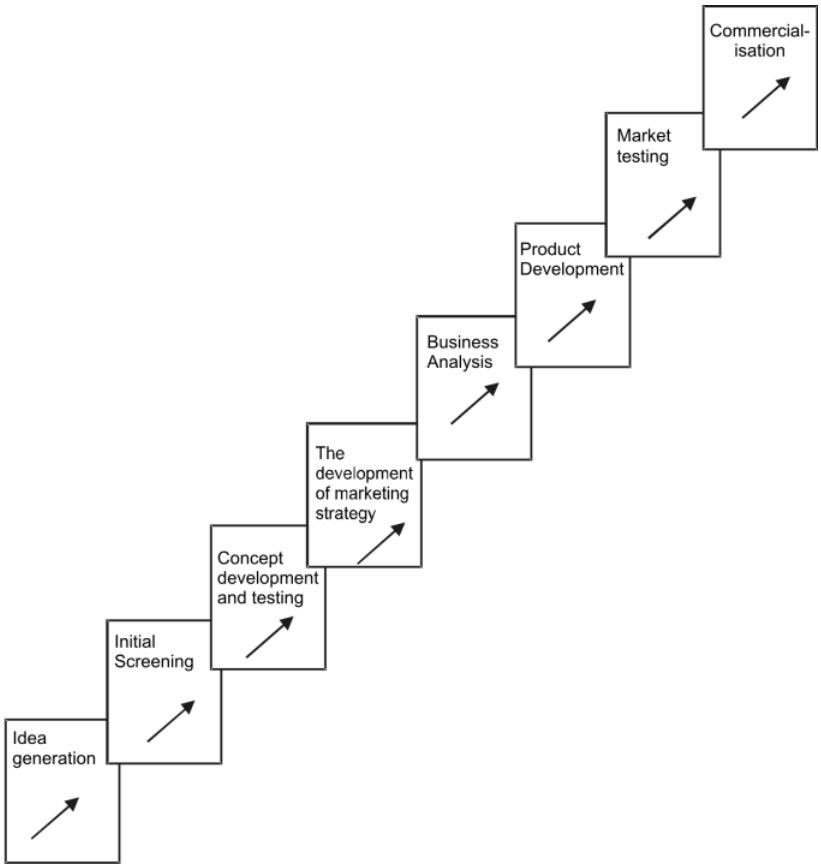
State whether the following statements are true or false:

1. National products add to the opportunity cost of a company as it can't be used in any other country.
2. International products and international brands are one of the same things.

7.2 New Product Development

What is a new product? Newness can be assessed in the context of the product itself, the organisation, and the market. The product may be an entirely new invention or innovation-for example, the Video Cassette Recorder (VCR) or the compact disc. It may be a line extension (a modification of an existing product) such as Diet Coke. Newness may also be organizational, as when a company acquires an already existing product with which it has no previous experience. Finally, an existing product that is not new to a company may be new to a particular market.

Figure 7.1: Product Development Process



Notes

Did u know? In today's dynamic, competitive market environment, many companies realize that continuous development and introduction of new products are keys to survival and growth.

The eight stages are illustrated in Figure 7.1, which begins with a statement of the new product development strategy.

Identifying New Product Ideas

The starting point for an effective worldwide new-product program is an information system that seeks new-product ideas from all potentially useful sources and channels. Those ideas relevant to the company undergo screening at decision centers within the organisation. There are many sources of new product ideas, including customers, suppliers, competitors, company salespeople, distributors and agents, subsidiary executives, headquarters executives, documentary sources (for example, information service reports and publications), and finally, actual firsthand observation of the market environment.

International New Product Department

As previously noted, a high volume of information flow is required to scan adequately for new product opportunities, and considerable effort is subsequently required to screen these opportunities to identify candidates for product development. An organizational design for addressing these requirements is a new product department. The function of such a department is fourfold: (1) to ensure that all relevant information sources are continuously tapped for new product ideas; (2) to screen these ideas to identify candidates for investigation; (3) to investigate and analyse selected new product ideas; (4) to ensure that the organisation commits resources to the most likely new product candidates and is continuously involved in an orderly program of new product introduction and development on a worldwide basis.

Testing New Products in National Markets

The major lesson of new product introduction outside the home market has been that whenever a product interacts with human, mechanical, or chemical elements, there is the potential for a surprising and unexpected incompatibility. Since virtually every product matches this description, it is important to test a product under actual market conditions before proceeding with full-scale introduction. A test does not necessarily involve a full scale test marketing effort.

It may simply involve observing the actual use of the product in the target market.

Self Assessment

State whether the following statements are true or false:

3. 7up Lemon was an entirely new invention by 7up.
4. It is imperative to test the product under standard conditions before launching it into the global market.

Task Make a list of different products in (different categories) that are specifically made for India. (At least 5 product categories and 5 products in each category)

Notes

7.3 International Product Planning

International product planning involves determining which products to introduce into which countries; what modifications to make in the products; what new products to add; what brand names to use; what package designs to use; what guarantees and warranties to give; what after sales services to offer; and finally, when to enter the market. All these are crucial decisions requiring a variety of informational inputs. Basic to these decisions are three other considerations: (1) product objectives, (2) coordination of product planning activities between headquarters and subsidiary, and (3) foreign collaboration.

Caution A company interested in an international market should first define its business intent based on the objectives of both the corporation and the host country.

The product objectives of a company would flow from the definition of its business. Ultimately, the offering should provide satisfaction to the customer, which would be reflected in the realization of the goals of both the corporation and the host country.

Product objectives emerge from host country and corporate objectives combines via the business definition. The company's goals usually are stability, growth profits, and return on investment. Stated differently, the corporate objectives may be defined in terms of activities (the manufacture of a specific product, or export to a particular market), financial indicators (to achieve a targeted return on investment), desired position (its market share and relative market leadership) and all these in combination with each other. The parent company usually also has a series of objectives on behalf of the various stakeholders' interests for which it is accountable. Host country objectives vary depending on the country's economic, political and cultural environment.

Obviously, the objectives of the host country and the company are poles apart. In any emerging market worldwide, however, no company can hope to succeed without aligning itself with the national concerns of the host country. There are no models to use in seeking a description of such an alignment.

Conceptually, however, a macro analysis of a country's socio-economic perspectives should provide insights into its different concerns and problems. The company can then figure out if its business would help the country in any way, directly or indirectly. The business definition should then be developed accordingly. For example, shortage of foreign exchange might be a big problem for a country. A multinational marketer's willingness to pursue a major effort of export promotion in the country would amount to an objective in line with the country's need. On the other hand, a company simply interested in manufacturing and selling such consumer goods as toiletries and canned foods, in a nation that is interested in establishing a basic infrastructure for industrial development in the country, may not be serving the national interest.

The definition of product objectives should emerge from the business definition. Product objectives can be defined in physical or marketing terms. "We sell instant coffee" is an example of defining objectives in physical terms. In marketing terms, the objective statement would emphasize the satisfaction of a customer need. The latter method is preferred because it reinforces the marketing concept.

The perspectives of international product planning can be categorized between issues of day to day concern on the one hand and strategic issues on the other. The day-to-day issues arise in implementing decisions already made. Strategic issues require major commitments, which must be taken up with the parent corporation.

Notes

In addition to ad hoc problems, which may be day to day or strategic, the parent may require a periodic review of the subsidiary's plants. Product planning for established product lines and plans for the development and marketing of new product lines would then be prepared by each host country/geographic area and separately submitted to corporate management for approval.

Self Assessment

State whether the following statements are true or false:

5. It is very difficult to market a new product with little or no experience in the global market.
6. Companies that wish to enter the global market should first define its business intent based on objectives of the host country only.

7.4 Product Adoption vs Standardization

Following are the differential points between product adoption and standardization:

7.4.1 Product Adoption

Before breaking into the foreign market, marketers must consider factors that influence product adoption. As explained by Diffusion Theory at least six factors have a bearing on the adoption process: relative advantage, compatibility, trialability/divisibility, observability, complexity and price. These factors are all perceptual and thus subjective in nature.

For a product to gain acceptance it must demonstrate its relative advantage over existing alternatives. A product must also be compatible with local customs and habits. A freezer would not find a ready market in Asia where people prefer fresh food. A new product should also be compatible with consumers' other belongings. If a new product requires replacement of those other items that are still usable, product adoption becomes a costly preposition.

A new product has an advantage if it is being capable of divided and tested in small trial quantities to determine its suitability and benefits. This is a product's trialability/divisibility factor. Disposable diapers and blue jeans lend themselves to trialability to rather well.

Observation of a product in public tends to encourage social acceptance and reinforcement resulting in the products being adopted more rapidly and less resistance.

Complexity of a product or difficulty in understanding the product's quality tends to slow its market acceptance. This factor explains why ground coffee had a difficult time in making headway to replace instant coffee in many countries.

7.4.2 Standardization

The strength of standardization in the production and distribution of products and services is in its simplicity and cost. It is an easy process for executives to understand and implement and it is cost effective also. If cost is the only factor being considered then standardization is clearly a logical choice because economies of scale can operate to reduce production costs. Yet minimizing production cost does not necessarily mean that profit increases will follow. Simplicity is not always beneficial and costs are often confused with profits. Cost reductions do not automatically lead to profit improvement and in fact the reverse may apply. By trying to control production costs through standardization the product may become unsuitable for alternative markets. The result may be that demand abroad will decline which leads to profit reduction. In some situations cost control can be achieved but at the expense of overall profits. It is, therefore, prudent to

Notes

remember that cost should not be over emphasized. The main marketing goal is to maximize profits and production cost reductions should be considered as a secondary objective.

Task Make a list of Companies that provide standardised products all over the world. Give the product profile of any two of them.

Self Assessment

Fill in the blanks:

7. A new product is advantageous if it people can try it first in small quantity. This quality is referred to as……

8. Cost reduction should be ……objective of business.

Caselet

Cotton Production/Marketing Interface

Spinners

Machines are highly flexible, that is they can usually switch to a variety of yarn requirements. The machines are geared to high production, are automated and are of a precision for constant quality provision. There are strict process controls and built-in quality control. Poor raw material, especially when contaminated with metal particles, damages opening mills, grid knives, fans and card clothing. Previous devices employed to remove these (magnets) are becoming less effective. The consequences are damage in the blow room and carding and danger of fire. Quality is therefore defined as properties of the end use (clothing etc.), efficiency of weaving and knitting and the efficient running of the spinning plant. Spinners require raw cotton which is free of trash, dust, sugar and honey dew contamination, seed coats, bark and foreign fibres. Further requirements are a certain length (could be short, medium or long), uniformity of length, strength, fineness, maturity and a certain elongation and colour.

Suppliers

In order to meet these high quality demands, the growers have to ensure that the production, picking and ginning is of a very high standard.

Cotton Grading

The Liverpool Cotton exchange, for one, relied on the skills of its experts to manually classify raw fibre purchases for its clients. It still holds the "standards" for length, colour and trash content. As well as the demands of modem machinery, the lack of standardised measuring and cotton classification procedures has resulted in commercial conflict and legal disputes about the true nature of traded cotton. Now, computer based high volume instrument listing systems of raw cotton (HVI systems) are available. The system can handle large numbers of bales, reduce variation in classification and the need for highly trained bate classifiers.

For cotton exporters the system offers the following advantages:

- enhanced objectivity in classification

Contd...

Notes

- improve communication if similar systems are used by sellers or buyers
- reduced conflict and need for arbitration
- enhanced competitiveness against synthetic fibres
- improved integration with modern spinning machines
- ·reduced costs on training of experts and in measuring time.

The system can process 2000 bales per day and give a printout on the seven parameters of grading. These include length and length uniformity, strength and elongation, micronaire or fineness, leaf and colour. Manufacturers include SPINLAR INC. of Knoxville, USA

Source: http://www.fao.org/docrep/W5973E/w5973e0c.htm#chapter 8: product decisions

7.5 International Product Marketing

Product standardization and modification may give the impression that a marketer must choose between the two processes and that one approach is better than other. In many instances, a compromise between the two is more practically are for superior in selecting either processor exclusively. Black and Decker have stopped customizing products for every country in favour of a few global products that can be sold everywhere. Such US publisher Prentice Hall and Harper Collins also have adopted the "World Book" concept, which makes it possible for English language book to have world copy writes. Publishers change, if necessary, only the title page cover and the jacket.

Did u know? World product and standardized product may some time be confused with each other.

A world product is designed for the international market. A standardized product is product develop for one national market and then exported with no change to international market.

A move towards a world product by a company is logical and healthy move. If a company has to adapt a product for each market, this can be very expensive proposition. But without the necessary adaptation a product might not sell at all. Committing to the design of a world product can provide the solution to these two major concern faces by most firms dealing with the international market place.

It is a misnomer to think that a world product would be more expensive than a national or a local product since the world product may need multipurpose parts. Actually, the world product should result in greater savings for two reasons. First, costly downtime in production is not needed to adjust or convert equipment to produce different national versions. Second, a world product greatly simplifies inventory control, because only one universal part, not many individual parts have to be stopped.

A world product may also be able to lower certain production costs by anticipating necessary local adaptation.

Example: The Japanese ministry requires 32 changes on most US built cars and the changes include: replacing of headlamps, because of left hand drive, dip in the wrong direction; changing sharp edged door handles; replacing outside rear view mirror, and filling the space between the body and the rear bumper to prevent catching the sleeves of Kimono-clad women. Honda is able to sell its US made cars in Japan at relatively low prices because it produces the cars ready for sale in Japan. Because cars manufactured by GM, Ford and Chrysler are built for the American market, they must undergo expensive alterations to meet Japanese regulations.

Notes

The world products have some inherent problems also. A large number of manufacturers of cars in India do not have Euro-I and Euro-II modifications to check pollution. Hence, the cars, which are not having these modifications, cannot be registered in New Delhi (NCR). Similarly, Ford Escort car was designed in Europe as Ford's world car.

Self Assessment

Fill in the blanks:

9. A ……product leads to great savings due to cost reductions.
10. A……..product is made for the national market but later introduced in the international market.

Task Pick up examples of any two international airlines services and discuss their marketing strategy in India.

7.6 Factors influencing Product Adaptation in International Markets

Product adaptation is an essential business process in which a company alters or "adapts" an existing product. Product adaptation may be a way to stay competitive in an evolving domestic marketplace, or a way to sell products abroad that might not be appealing to foreign consumers without small, or large, changes.

Standard of Living: Foreign markets are likely to feature a different standard of living than that found in the region where a product was first sold. This may mean a need to lower the price, or an opportunity to raise it. Adapting a product to use different materials and meet different standards of quality is one way that product adaptation addresses the needs of new markets.

Regulations: Selling products abroad may be an essential factor in product adaptation when government or industry regulations require products to meet certain standards. This is the case with many foreign automobiles, which must undergo a major product adaptation to meet strict American safety and emissions standards before being sold in the United States. Manufacturers also need to adapt electronic equipment to meet the voltage requirements of new markets.

Usage Conditions: Product usage conditions can affect product adaptation in a number of ways. The climate, altitude and distance of a new market may require manufacturers to develop new solutions that allow a product to function as intended or new packaging that will allow the product to reach its destination in good condition. Storage and sales trends in a new market can also require product adaptation, with manufacturers providing new versions of a product that can be stacked, hanged or displayed according to regional conventions. Food containers are a good example of this, with manufacturers needing to provide bottles and boxes that will fit in the refrigerators and cabinets of consumers in a new market.

Cultural Condition and Style: Sometimes a product needs only superficial adaptation in order to fit into a new market. Different cultures assign meaning to colors, words and numbers very differently, for example. This may mean that a manufacturer will have more success changing the name or color of a product while leaving its functional components unchanged. Manufacturers may also need to change the name of a product to avoid confusion in the translation into a new language or to avoid using a name already copyrighted or associated with a different product in the new market.

Notes

7.7 Trade-off Strategy

"A trade-off means that more of one thing necessitates less of another". Trade-offs occur when activities are incompatible and arise for three reasons:

1. A company known for delivering one kind of value may lack credibility and confuse customers or undermine its own reputation by delivering another kind of value or attempting to deliver two inconsistent things at the same time.
2. Trade-offs arises from activities themselves. Different positions require different product configurations, different equipment, different employee behaviour, different skills, and different management systems. In general, value is destroyed if an activity is over designed or under designed.
3. Trade-offs arises from limits on internal coordination and control. By choosing to compete in one way and not the other, management is making its organizational priorities clear. In contrast, companies that tries to be all things to all customers, often risk confusion amongst its employees, who then attempt to make day-to-day operating decisions without a clear framework.

Moreover, trade-offs create the need for choice and protect against repositioners and straddlers. Thus, strategy can also be defined as making trade-offs in competing. The essence of strategy is choosing what not the do.

7.8 IPLC

The international product life cycle is a theoretical model describing how an industry evolves over time and across national borders. This theory also charts the development of a company's marketing program when competing on both domestic and foreign fronts. International product life cycle concepts combine economic principles, such as market development and economies of scale, with product life cycle marketing and other standard business models.

The four primary elements of the international product life cycle theory are: the structure of the demand for the product, manufacturing, international competition and marketing strategy, and the marketing strategy of the company that invented or innovated the product. These elements are categorized depending on the product's stage in the traditional product life cycle. Introduction, growth, maturity, and decline are the stages of the basic product life cycle.

During the introduction stage, the product is new and not completely understood by most consumers. Customers that do understand the product may be willing to pay a higher price for a cutting-edge good or service. Production is dependent on skilled laborers producing in short runs with rapidly changing manufacturing methods. The innovator markets mostly domestically, occasionally branching out to sell the product to consumers in other developed countries.

International competition is usually nonexistent during the introduction stage, but during the growth stage competitors in developed markets begin to copy the product and sell domestically. These competitors may also branch out and begin exporting, often starting with the county that initially innovated the product. The growth stage is also marked by an emerging product standard based on mass production. Price wars often begin as the innovator breaks into an increasing amount of developed countries, introducing the product to new and untapped markets.

At some point, the product enters the maturity stage of the international product life cycle and even the global marketplace becomes saturated, meaning that almost everyone who would buy the product has bought it, either from the innovating company or one of its competitors. Businesses compete for the remaining consumers through lowered prices and advanced product features.

Notes

Notes Production is stable, with a focus on cost-cutting manufacturing methods, so that lowered prices may be passed on to value-conscious consumers.

Product innovators must guard both foreign and domestic markets from international competition, while finally breaking into riskier developing markets in search of new customers. When the product reaches the decline stage, the innovators may move production into these developing countries in an effort to boost sales and keep costs low. During decline, the product may become obsolete in most developed countries, or the price is driven so low that the market becomes close to 100% saturated.

7.9 Product Strategy

Product strategy is the ultimate vision of the product, as it states where the product will end up. By setting a product strategy, you can determine the direction of your product efforts.

Similar to making effective use of a map, you first need a destination, and then you can plan your route. Just as a business has a strategic vision of what it wants to be when it grows up, the product has its own strategy and destination.

7.9.1 Why is a Product Strategy Important?

The product strategy forms the basis for executing a product roadmap and subsequent product releases. The product strategy enables the company to focus on a specific target market and feature set, instead of trying to be everything to everyone.

7.9.2 Elements of a Product Strategy

When defining your product strategy, be sure to answer the following questions. Each question below links to an article that further develops the topic, so make sure to review the linked articles as you create your strategy. Who are you selling to? Define your target customer or market. Identify whom you are selling to, and what that market looks like.

- ***What are you selling?*** Describe how potential customers will perceive your product compared to competitive products. Understand what makes your product unique in the market.
- ***What value do you provide your customers?*** Determine what problems your product solves for customers. You cannot be everything to everyone within a particular market, but you can help to solve specific problems. Create a value proposition to position the value you provide and the benefits that customers will receive with your solution.
- ***How will you price your product?*** State how you will price the product. Include its perceived value and a pricing model.
- ***How will you distribute your product?*** Describe how you will sell your product, and how your target market will acquire your product.

7.9.3 Creating your Product Strategy

To create your product strategy, start with identifying the market problems you would like to solve. This includes interviewing your target market, understanding the competitive landscape and identifying how you will differentiate yourself.

Notes

Your product strategy will change over time as you learn more about your market, and as (if) you decide to enter different markets. Listening to your market and developing your product strategy is a circular process; as you learn more, you will evolve your product strategy and the problems you solve.

Example: **Product Strategy**

The following is a brief example of a product strategy. Your product strategy will vary, and will probably be longer, but should follow the theme of the five questions above.

- We build quality kitchen hardware for residential kitchen customers.
- Our customers are young North American families who want kitchen hardware that can stand the wear and tear of young children. They are interested in materials that are safe for children and eco-friendly.
- We sell our products through a retail channel.
- Our products are priced per unit, and are considered "high-end" hardware solutions.

7.9.4 Power of the Product Strategy

The power of a product strategy comes from what you define as well as what you exclude. By identifying a particular target market in your product strategy, you are also excluding other markets. This helps your company to understand which projects fall outside the product strategy and distract from strategic goals.

Self Assessment

Fill in the blanks:

11. The ..... of a product strategy comes from what you define as well as what you exclude.
12. During ....., the product may become obsolete in most developed countries, or the price is driven so low that the market becomes close to 100% saturated.
13. The ..... product life cycle is a theoretical model describing how an industry evolves over time and across national borders.
14. Product ..... is an essential business process in which a company alters or "adapts" an existing product.
15. The growth stage is also marked by an emerging product ..... based on mass production.

Case Study

Tinker with Care

Dabur tinkered with the product proposition for Lemoneez even after test marketing had cleared it. The reason lay in the choice of the city for test marketing: Bangalore. Sourcing the extract from a Bangalore-based plant, Dabur chose to test the product in the city in 1996.

Contd...

Notes

The test marketing ran for a year in which Dabur saw good institutional sales. Some 15,000 bottles were sold in just three months. The product was extended nationally by April 1998. It took off well. But by late 1998, the sales graph took a deep dive.

Unlike Bangalore, the north has sharp winters and summers. As winter approached, prices of lemons dropped sharply. So did the buying, since consumers in the north bought it not so much for convenience as price. Also unlike Bangalore, other centres did not witness high institutional sales.

It was then that Dabur thought of altering the brand positioning from pure convenience to a more value-for-money platform. Ads released in late 1998 stressed on the per-unit price of a glass of lemon juice. Also, the lower seasonality, Dabur planned combinations like ginger-lemon or honey-lemon. That is still being debated upon but smaller packs – 50 ml and 100 ml – did make an appearance last winter. They are working, to an extent.

Then deviating too much from test marketing mix can be disastrous too. Parle's novel gelatin-based drink, Jolly Jely, is one such case. Three years back, it was test marketed in glass containers. The contents, as could be viewed in the container, had striking colours which went down well with kids who glugged the jelly from the wide mouthed containers.

But the product that hit the market in April 1996 came in 200-ml tetra packs. The company found that handling glass containers was not so easy. But that meant that the target audience could not longer appreciate the colour. Nor could he or she consume it easily through a straw provided, since the formulation was thick and contained globules.

The tetra packs killed the market for jolly jelly. "More often than not, the marketer's enthusiasm to launch rides on impatience," agrees a marketer. Speed to market seems to have become an over-riding concern in these hyper competitive times.

Question

Why did the above given situation arise? What went wrong?

Hint: Too many alterations in the set marketing mix can prove to be fatal for the brand as can be seen in the case.

Source: International Marketing-3rd Edition, PK Vasudeva, Excel Books

7.10 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- Actually intangible products are a significant part of the export market. In many situations both tangible and intangible products must be combined to create a single total product.
- There are six distinct steps in new product development. The first step is the generation of new product ideas. The second step involves the screening of ideas.
- The third step is business analysis, the fourth is product development. Fifth step involves test marketing to determine potential marketing problems and the optimal marketing mix.
- In the sixth step assuming that things go well, the company is ready for full scale commercialization by actually going through with full scale production and marketing.
- Before breaking into the foreign market, marketers must consider factors that influence product adaptation. Wool coats are not needed in a hot country and products reducing static cling (Cling Free) are useless in a humid country.

Notes

- World product and standardized product may some time be confused with each other. A world product is designed for the international market. A standardized product is product develop for one national market and then exported with no change to international market.

7.11 Keywords

Behavioural Segmentation: It focuses on whether people buy and use a product, as well as how often and how much they use it.

Demographic Segmentation: It is based on measurable characteristics of population such as age, gender, income, education, and occupation.

International Products: Products that are offered in multinational, regional markets.

National Products: Products that are offered in a single national market.

Psychographic Segmentation: It involves grouping people in terms of their attitudes, values and lifestyles.

Trade-off: A trade-off means that more of one thing necessitates less of another.

7.12 Review Questions

1. Differentiate between national and international products. Give examples.
2. How important is product testing, while preparing to launch a new product in the international market?
3. What are product objectives and how should they be decided?
4. What do you mean by product standardization? How is it useful?
5. Is there a difference between product and service marketing? Justify your answer.

Answers: Self Assessment

1.	True	2.	False
3.	False	4.	False
5.	True	6.	False
7.	Triability/Divisibility	8.	Secondary
9.	World	10.	Standardized
11.	Power	12.	Decline
13.	International	14.	Adaptation
15.	Standard		

7.13 Further Readings

Books

Cateora and Graham, *International Marketing*, McGraw Hill, 2007

Charles W.L. Hill, *International Business Competing in the Global Marketplace*, 4th Edition, Tata McGraw-Hill Publishing Company Limited

Notes

Chase Richard, Jacob Robert, Aquillano and Agarwal Nitin, *Operations Management*, 11th Edition, Tata McGraw-Hill Publishing Company Limited

Justin Paul, *International Business*, 3rd Edition, Prentice Hall of India

Vasudeva, PK, *International Marketing*, Excel Books, New Delhi, 2010

Online links

http://www.ehow.com/list_6903948_factors-affecting-product-adaptation.html

http://www.marsdd.com/articles/product-strategy-why-it-matters-and-how-to-create-on/

http://www.wisegeek.com/what-is-international-product-life-cycle.htm

http://www.maaw.info/ArticleSummaries/ArtSumPorter96.htm

Unit 8: Pricing Decisions for International Markets

Notes

CONTENTS

Objectives

Introduction

8.1 Pricing Decisions

8.2 Factors affecting International Pricing Strategies

8.2.1 Factors affecting Pricing Decisions

8.3 Pricing Approaches

8.4 Pricing Issues in International Marketing

8.5 Summary

8.6 Keywords

8.7 Review Questions

8.8 Further Readings

Objectives

After studying this unit, you will be able to:

- Describe Pricing
- Explain the parameters on which pricing decisions are based
- Discuss on the information needed for pricing decisions
- Explain the factors affecting export pricing
- Describe the various pricing strategies used by firms
- Analyse the pricing issues in international markets

Introduction

Pricing is a very critical decision in international marketing management because it is a major factor influencing a firm's total revenue from exports and its profitability. There is no thumb rule or any scientific or mathematical/statistical formula that can be applied in pricing a product correctly. There is no doubt that as is the case in the domestic market the interaction of the market force like demand and supply affect the price at which the product can be sold in the international market. Besides, several other factors: economic, social, political, marketing conditions and product attributes influence the decision making in the international marketing.

In any given marketing three basic factors determine the limits of pricing decisions of a firm. These are product cost, the purchasing power of the consumers and demand and supply force.

8.1 Pricing Decisions

The pricing decision is a critical one for most marketers, yet the amount of attention given to this key area is often much less than is given to other marketing decisions. One reason for the lack of attention is that many believe price setting is a mechanical process requiring the marketer

Notes

to utilize financial tools, such as spreadsheets, to build their case for setting price levels. While financial tools are widely used to assist in setting price, marketers must consider many other factors when arriving at the price for which their product will sell.

The marketing manager uses the parameters suggested by the economists for arriving at a price. These parameters may be enumerated as under:

1. Costs
2. Demand and supply
3. Economic, legal and political conditions

1. ***Costs:*** Costs represent the base line for setting the price. In other words, costs represent the price floor beyond which prices cannot be dropped. As already explained costs are made up of two components, fixed costs and variable costs. Fixed costs represent the un-escapable element of cost, whereas, the variable cost represent the escapable costs. The variable costs are also sometimes interpreted as marginal costs or incremental costs.

   Each of these components has its own significance when pricing a product but the significance is in turn dependent upon the marketing goals, and other similar variables.

2. ***Demand & Supply:*** For a marketing manager, the upper limit is demonstrated by the demand and supply conditions as they exist in the market. The demand conditions are interpreted from the market conditions and the consumer behaviour whereas; the supply conditions are interpreted by an analysis of the competition. The prices charged by the competitors, and the attributes and quantity sold by the competitors, set the supply parameters.

Example: the prices being charged for garments by the Italians and the South Asians will determine broadly the range that can be charged by the apparel exporters. Again, if the international buyer is alert he will through his awareness, bargain against the subsidies being provided by the Government to the exporter, thus forcing the Indian exporter to charge as per real costs.

3. ***Economic, Legal and Political conditions:*** These represent parameters outside the market forces which influence the price structure. The Government, it has been noted, can through its policy, in fact modify the market conditions, making them lopsided. Thus, the countries where the economic policies are directed by the Government, the economic and political conditions have an important bearing on price structures. Taxes and duty drawbacks represent excellent examples for the same.

   Legalities lengthen any process and complicate it and thereby influence the price structure. The more the legal constraints to be adhered to, more the price charged from the customers, in an effort to pass the increase in costs.

The parameters explained above suggest the upper and lower limits but, the actual price lies somewhere in between. The effort of every manager is to arrive at a process that is easy and minimizes the deviation from the chosen price, in order to ensure the resultant profit. As a result of this, various methods of pricing, have come into vogue which emphasise one variable as against the other variable for example, cost plus pricing, competitive pricing. Cost plus pricing reflects an accounting thought rather than a managerial thought whereas competitive pricing reflects a supply side thought process.

It must be pointed out that marketing efforts are directed at fulfilling the need of the identified consumers. Price is an inherent factor of need. Therefore price must reflect managerial thought, and must fit into the overall marketing strategy.

Notes

A suggested process for arriving at the price would include the following steps:

1. Analysis of the marketing goals
2. Choosing the marketing mix
3. Composing the marketing mix
4. Determining the pricing policy
5. Defining the pricing strategy
6. Arriving at a specific price.

Of course, the chronology is not important but thought on each of the above steps would enable the marketing manager to arrive at a price which fulfils his marketing objectives within the set upper and lower limit. Thus, in brief, the marketing manager arrives at a price, within the parameters of cost, demand & supply and economic, political and legal parameters, by adopting a process that fulfils his marketing objective.

Notes An important pre-requisite for scientific export pricing decisions is regular availability of authentic basic data relating to export products, foreign market and other relevant marketing information. The details of information requirements vary from product to product, market to-market and firm to firm.

In general, the following information is usually necessary for facilitating export pricing decision:

Product Information

1. Production cost details:
   a) Prime cost
   b) Factory overheads
   c) General Administration overheads
2. Cost of distribution
   a) Cost of packing
   b) Cost of selling
   c) Cost of transportation including insurance
   d) Distribution costs
3. Cost of marketing support-advertising, sales promotion and technical literature.

   These data may have to be obtained for the exporting countries, for competing countries and for consuming countries.
4. Nature of the product
   a) Whether a consumer or an industrial product
   b) Elasticity of demand
   c) Demand be pushed up by promotion
   d) Importance given to the price-quality mix
   e) Elasticity of supply of the product

Notes

5. International levies, taxes, etc.
6. Export incentives
7. Product guarantees
8. Installation and after-sales service requirements, and
9. Percentage incidence of rejects.

Market Information

1. Market Structure-high competition, little competition or low competition
2. Peculiarities of the market-developed and developing countries. Particular segments in developed countries may be interested in low price goods.
3. Ruling price in the foreign market including prices of substitutes
4. Terms of payment offered by the competitors and demanded by importers
5. Import duties, border fiscal charges and quota, restrictions.
6. Major sources of supply in the importing country-local and foreign
7. Trade preferences and/or trade agreements, if any
8. Extent of G.S.P. concessions, if any
9. Brand image, brand loyalty and consumer preferences
10. The nature of market segmentation, if any
11. Publicity-need, media and cost
12. Channels of distribution and margins allowed to various intermediaries
13. Shipping freight, insurance, packing, banking, transportation and other charges incidental to export, and
14. Documentation and invoicing requirements, health and sanitary regulations and other government regulations.

Information Required at the Micro Level

Some of the strategic points of information necessary for pricing decisions at the micro level cover the following aspects:

1. Production capacity of the firm-installed as well as utilised
2. Proportion of total production supplied to the home market
3. Proportion at present exported
4. Competition among domestic firms in the export field, and
5. Additional export possibilities

As regards the supplies for additional exports, the essential information required is:

1. Whether it would involve curtailment of supplies to the domestic market?
2. Whether it would lead to the utilisation of idle capacity, or
3. Whether it would require commissioning of new capacity?

Self Assessment

Notes

Fill in the blanks:

1. The three basic factors which determine the limits of pricing decisions of a firm are product cost, the purchasing power of the consumers and .....
2. ..... represents the price floor beyond which prices cannot be dropped.
3. The ..... conditions in the market are interpreted by an analysis of the competition.

8.2 Factors affecting International Pricing Strategies

Pricing strategy is an important part of fixing the international price. The price has to be competitive and based on the quality of a product. Different pricing strategies are adopted in different foreign countries because of certain environmental factors like political, economic, socio-cultural, and legal and so on. Let us learn some more about international pricing, discussed in following subsections.

8.2.1 Factors affecting Pricing Decisions

There are three main factors which affect the export price strategy to be adopted by the exporter in the foreign markets, viz. the characteristics of the product and the nature of its demand, the philosophy of its management and the market characteristics. The pricing strategy is a short-term tool to make fit the prices in the changing competitive situations in the short run with its pricing policy decisions.

1. ***Characteristics of the product and the nature of its demand:*** It is a major factor in fixing the price of the product at a particular time. In other words, improvement in quality of the product and product adaptation according to the changing competitive conditions in the foreign market should be taken as a continuous process. Elasticity of demand is another factor, which influences the price. If the demand of a product is inelastic, the price reduction will not help to increase the revenue. In such a case, higher prices may be fixed taking in view the competitive position in the market. If, on the other hand, product is highly elastic, the sales revenue can be appreciably increased by slightly reducing the price. Thus, pricing strategy, i.e. whether to fix higher price or lower price as compared to the competitor's prices very much depends upon the elasticity of demand and the competitive position.
2. ***The philosophy of the management:*** As we know that the main objective of management of every concern is to maximize profits, this is an adverse relationship between the price and the demand. The management can earn more profit at increased revenue by reducing the price if the demand is more elastic. On the other hand, if the objective of the management is to export a committed value of merchandise, the price may be even lower than the marginal cost.
3. ***Market characteristics:*** Market characteristics such as number of competitors and degree of competition, supply position, quality of the product, substitutes available in the market etc. determines the pricing strategy of the firm. These market characteristics vary from country to country.

Task Write a note on "P&G and its pricing policies".

Notes

Self Assessment

Fill in the blanks:

4. The pricing strategy is a ..... tool to make fit the prices in the changing competitive situations in the short run with its pricing policy decisions.
5. If the demand for a product is……, then even the reductions in prices will not lead to increase in revenue.

8.3 Pricing Approaches

The export price quotations may not be the same for all markets. Prices may differ from market to market due to various reasons viz. political influence, buying capacity, financial and import facilities, total market turnover and other pricing and non-pricing factors etc. in order to make the local price of the product competitive. The profitability will also be affected to a great extent and may be different in different markets. However, there is nothing wrong in making higher margin in small export markets and lower ones in others provided there is an overall profit in export business.

Thus, different strategies may be used in different markets. In some markets prices may be higher in some others they may be cost price or in many others; they may be less than the cost price. Normally, the following pricing strategies are used in the export market:

1. ***Market Penetration Strategy:*** Under this strategy, exporters offer a very low introductory price to speed up their sales and, therefore, widening the market base. It aims at capturing the products in the market especially if the quality of the product is proved with its wide acceptance.
2. ***Probe Pricing Strategy:*** Fixing low price for its product may have an adverse effect on the image of the firm and of the product. It may raise doubts in the minds of the buyers about the quality of the product if it is lower than the price of competitors or if it is reduced subsequently. When no information is available on the extent of the competition or the likely preferences of the buyers, sufficiently higher prices may be quoted on the first few offers. No business is really expected to grow except feed back information. Hence, the prices may be adjusted accordingly.
3. ***Follow the Leader Pricing Strategy:*** In a competitive world market or where adequate market information is not available, it may be useful to follow the leader in the market comparing its product with that of the leader the exporter may then fix the price of its product. In such cases the price of the product is lower than the leader's product. However, this price has no rational or scientific base for fixing the price.
4. ***Skimming Pricing Strategy:*** Under this strategy, a very high introductory price is fixed to skim the cream of the demand at the very outset. This policy is generally introduced when there is no competition in the market. Such prices continue to be high till competitors enter the foreign market. As soon as competitors enter the market, the exporter reduces the price.
5. ***Differential Trade Margins Strategy:*** Variation in trade margins may be adopted by the exporter as the pricing strategy in foreign market. This strategy allows various types of discounts on the list price. Quantity discounts encourage procuring huge orders. It may be based on the value or on the quantity purchased or on the size of the package purchase. Special discounts may be allowed while introducing the product. These are given on all the purchases. Seasonal discount aims at shifting the storing function in the channels. This approach is 'buy sooner or more'. Cash discount attracts prompt payment. It ensures

Notes

'quick pay-back'. Trade discount is a reduction in list price given to channel members in anticipation of a job they are going to perform.

6. ***Standard Export Pricing Strategy:*** In some cases, exporter quotes the standard price or list price that is one price for all. But still there should be some margin for negotiations as in many markets especially in under developed countries, bargaining over prices is a part of life. In such cases, fixed prices may serve as a starting point for negotiation. Hence, it is desirable to keep a certain margin for the negotiations. This strategy is generally adopted in the export of capital goods i.e. plant & machinery.

7. ***Cheaper Price for Original Equipment and Higher Price for Spare Parts:*** In certain cases it might be useful to quote lower prices for the original equipment and charging higher prices for spares and replacement parts to be exported later as and when required. This strategy is useful where only the supplier of the original equipment can supply standard spare parts. This strategy could be used for tractors, telephone equipment, defense armaments, and railway equipment and so on.

Caution Thus, different pricing strategies may be adopted in different markets taking into account the level of competition, the marketing characteristics and the philosophy of the management. Profitability anyhow cannot be ignored completely in the long run. However, exports may be continued in the short run even below the marginal cost.

Task Visit an exporter to find out the criteria he uses to make the quote.

Self Assessment

State whether the following statements are true or false:

6. Under Market Penetration strategy, firms keep very low introductory prices.
7. A pricing strategy under which initially the price is kept very high, which is later adjusted as per consumer feedback is referred to as Standard Export pricing strategy.
8. Under Skimming strategy, Firms keep very high initial prices to skim the market
9. The price charged for a product is the same in all markets

Caselet

Microsoft Rethinks Unified Pricing Strategy

Microsoft is studying ways to offer its software at different price points around the world, signalling a possible departure from its unified global pricing practice.

Although it has already made pricing concessions in some isolated cases, such as Thailand, where competitive pressure from open source products had been mounting, the Redmond, Washington-based vendor has generally stuck to a system where its products are priced the same around the world.

Now, facing pressure for change from some customers, particularly in emerging markets, Microsoft is working with governments in those countries to price its software in a way

Contd...

Notes

that is relevant to that market, Martin Taylor, general manager of platform strategy at Microsoft, said in a conference call with financial analysts on Friday.

"From a pricing perspective, I think one of the most difficult challenges that we work on is to really understand, let's call it this 'Big Mac' index, in terms of how much does a Big Mac cost in India versus in New York versus in Taipei, and how do you map a similar Big Mac index to software? It's a very difficult problem," Taylor said, according to a transcript of the call.

The Big Mac index is an annual listing of prices for Big Mac hamburgers in several countries compiled by The Economist magazine.

One problem for Microsoft is that, unlike hamburgers, software doesn't spoil, which makes it easier for buyers to shop around for a better deal and buy their software from another country. To address this, Taylor suggested that Microsoft could offer different prices for the different language editions of its products.

"English speaking is an area that we have to really think about," he said. "When you have markets where you have specific languages then it's a little bit easier to do."

Microsoft is working with several unspecified governments to tailor its offerings, Taylor said. "We've got quite a few different initiatives that we're beginning to work on that we'll be announcing in the coming months," he said. Taylor didn't provide specifics.

The problem Taylor and his company are facing is a tough one, said Laura DiDio, a senior analyst at Boston-based The Yankee Group.

"I can absolutely see and sympathize with what he is grappling with. What can you do? You want to make your products affordable, particularly to companies in the Pacific Rim, because they just don't have the money, and then what do you say to your customers in established markets such as North America and Western Europe?" DiDio said.

DiDio expects Microsoft to come up with a solution for its woes. Not only will it negotiate on pricing or offer tailored version of its software for various countries, it will also talk to governments about jobs the company has created in their region, bring in Chairman and Chief Software Architect Bill Gates for some star power, and the Bill and Melinda Gates Foundation may even contribute to a local cause, she said.

"I don't want to suggest that Bill Gates is using his charity as leverage to get Windows in anywhere, but it certainly does help," she said.

Paul DeGroot, an analyst at Directions on Microsoft Inc. in Kirkland, Washington, doesn't expect Microsoft to change its global pricing strategy overnight, but does see some changes happening at the local level.

Source: www.infoworld.com/t/applications/microsoft-rethinks-unified-pricingstrategy-921

Task Price is an important element of marketing mix. Explain with the help of examples.

8.4 Pricing Issues in International Marketing

Price can best be defined in ratio terms, giving the equation

$$\text{Price} = \frac{\text{Resources given up}}{\text{goods received}}$$

Notes

This implies that there are several ways that the price can be changed:

- ***"Sticker" price changes:*** The most obvious way to change the price is the price tag— you get the same thing, but for a different (usually larger) amount of money.
- ***Change quantity:*** Often, consumers respond unfavourably to an increased sticker price, and changes in quantity are sometimes noticed less, e.g. in the 1970s, the wholesale cost of chocolate increased dramatically, and candy manufacturers responded by making smaller candy bars.

Notes For cash flow reasons, consumers in less affluent countries may need to buy smaller packages at any one time (e.g. forking out the money for a large tube of toothpaste is no big deal for most American families, but it introduces a greater strain on the budget of a family closer to the subsistence level).

- ***Change quality:*** Another way candy manufacturers have effectively increased prices is through a reduction in quality. In a candy bar, the "gooey" stuff is much cheaper than chocolate. It is frequently tempting for foreign licensees of a major brand name to use inferior ingredients.
- ***Change terms:*** In the old days, most software manufacturers provided free support for their programs—it used to be possible to call the WordPerfect Corporation on an 800 number to get free help. Nowadays, you either have to call a 900 number or have a credit card handy to get help from many software makers. Another way to change terms is to do away with favourable financing terms.

Reference Prices*:* Consumers often develop *internal reference prices*, or expectations about what something should cost, based mostly on their experience. Most drivers with long commutes develop a good feeling of what gasoline should cost, and can tell a bargain or a rip-off.

Reference prices are more likely to be more precise for frequently purchased and highly visible products. Therefore, retailers very often promote soft drinks, since consumers tend to have a good idea of prices and these products are quite visible. The trick, then, is to be more expensive on products where price expectations are muddier.

Marketers often try to influence people's price perceptions through the use of *external* reference prices—indicators given to the consumer as to how much something should cost. E

Example:

- Manufacturer's Suggested Retail Price (MSRP). This is often pure fiction. The suggested retail prices in certain categories are deliberately set so high that even full service retailers can sell at a "discount." Thus, although the consumer may contrast the offering price against the MSRP, this latter figure is quite misleading.
- "SALE! Now $2.99; Regular Price $5.00." For this strategy to be used legally in most countries, the claim must be true (consistency of enforcement in some countries is, of course, another matter). However, certain products are put on sale so frequently that the "regular" price is meaningless. In the early 1990s, Sears was reported to sell some 55% of its merchandise on sale.
- "Was $10.00, now $6.99."
- "Sold elsewhere for $150.00; our price: $99.99."

Notes

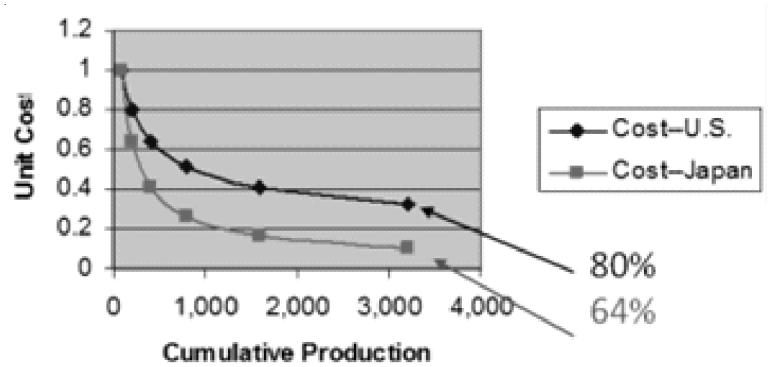
Reference prices have significant international implications. While marketers may choose to introduce a product at a low price in order to induce trial, which is useful in a new market where the penetration of a product is low, this may have serious repercussions as consumers may develop a low reference price and may thus resist paying higher prices in the future.

Selected International Pricing Issues: In some cultures, particularly where retail stores are smaller and the buyer has the opportunity to interact with the owner, bargaining may be more common, and it may thus be more difficult for the manufacturer to influence retail level pricing.

Two phenomena may occur when products are sold in disparate markets. When a product is exported, price escalation, whereby the product dramatically increases in price in the export market, is likely to take place. This usually occurs because a longer distribution chain is necessary and because smaller quantities sold through this route will usually not allow for economies of scale. "Gray" markets occur when products are diverted from one market in which they are cheaper to another one where prices are higher, e.g. Luis Vuitton bags were significantly more expensive in Japan than in France, since the profit maximizing price in Japan was higher and thus bags would be bought in France and shipped to Japan for resale. The manufacturer therefore imposed quantity limits on buyers. Since these quantity limits were circumvented by enterprising exchange students who were recruited to buy their quota on a daily basis, prices eventually had to be lowered in Japan to make the practice of diversion unattractive. Where the local government imposes price controls, a firm may find the market profitable to enter nevertheless since revenues from the new market only have to cover marginal costs. However, products may then be attractive to divert to countries without such controls.

Transfer pricing involves what one subsidiary will charge another for products or components supplied for use in another country. Firms will often try to charge high prices to subsidiaries in countries with high taxes so that the income earned there will be minimized.

Figure 8.1: Experience Curve costs of Production



Source: http://www.consumerpsychologist.com/intl_Price.html

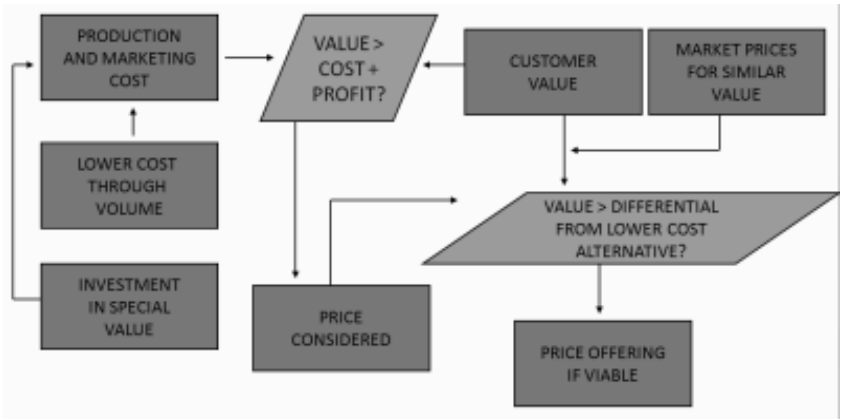
Antitrust laws are relevant in pricing decisions, and anti-dumping regulations are especially noteworthy. In general, it is illegal to sell a product below your cost of production, which may make a penetration pricing entry strategy infeasible. Japan has actively lobbied the World Trade Organization (WTO) to relax its regulations, which generally require firms to price no lower than their average fully absorbed cost (which incorporates both variable and fixed costs). Alternatives to "hard" currency deals: Buyers in some countries do not have ready access to convertible currency, and governments will often try limiting firms' ability to spend money abroad. Thus, some firms have been forced into non-cash deals. In barter, the seller takes payment in some product produced in the buying country.

Notes

Example: Lockheed (back when it was an independent firm) took Spanish wine in return for aircraft, and sellers to Eastern Europe have taken their payment in ham.

An offset contract is somewhat more flexible in that the buyer can get paid but instead has to buy, or cause others to buy, products for a certain value within a specified period of time.

Figure 8.2: Cycle of Price Setting



Source: http://www.consumerpsychologist.com/intl_Price.html

Psychological issues: Most pricing research has been done on North Americans, and this raises serious problems of generalisability. Americans are used to sales, for example, while consumers in countries where goods are scarcer may attribute a sale to low quality rather than a desire to gain market share. There is some evidence that perceived price quality relationships are quite high in Britain and Japan (thus, discount stores have had difficulty there), while in developing countries, there is less trust in the market. Cultural differences may influence the extent of effort put into evaluating deals (potentially impacting the effectiveness of odd-even pricing and promotion signalling). The fact that consumers in some economies are usually paid weekly, as opposed to biweekly or monthly, may influence the effectiveness of framing attempts—"a dollar a day" is a much bigger chunk from a weekly than a monthly pay check.]

Did u know? McDonald's prices its products in international markets depending upon the country's purchasing power. The hamburger prices vary from US$ 1.2 in China to US$ 4.52 in Switzerland.

Self Assessment

Fill in the blanks:

10. Price can be defines as the resources given up divided by .....
11. Reference prices are more likely to be more precise for frequently purchased and highly ..... products.
12. Under transfer pricing, firms will often try to charge ..... prices to subsidiaries in countries with high taxes.
13. It is illegal to sell a product below your....., which may make a penetration pricing entry strategy infeasible.

Notes

14. In ....., the seller takes payment in some product produced in the buying country.

15. Reference prices can be Internal or .....

Case Study

The Case of Vendor Improvement

The rays of the late afternoon sun filtered in through the sheer glass that was south-western wall of Indo-Wichita's boardroom. It cast three long shadows on the whiteboard that stood in the opposite corner, the diagrams on it from the last meeting only half-obliterated. The presence of just three people made the room seem larger than it was. Gautam Niyogi, at three inches above 5 feet, was the smallest, but he had the word CEO written all over him. Rajeev Kshirsagar – at 38, he was 10 years younger than his boss – was more casual. The third person, Arnab Roychowdhury, was trying hard to look older than his 30 years, which was exactly the average age of senior consultants at Beninger Darkman.

Gautam Niyogi: "Thanks for dropping by at such short notice, Arnab. You haven't met Rajeev Kshirsagar, have you? He's my right-hand man. Rajeev, Arnab is the bright young man whom Sam told me about. Arnab, we want to talk to you about a special vendor education programme that we have been running for over two years now. All these months, we thought that it was giving us – and our suppliers – great results. But, over the past few weeks, we have been getting feedback, some direct, some indirect, which suggests that we may have been exaggerating its success. In fact, we may actually have been jeopardising our entire supply chain management process. And that's where we need your help.

Arnab Roychowdhury: All right. Could we start at the beginning? What is this special programme?

Niyogi: Our Vendor Improvement Team conducts it. Not very imaginatively, we call it the VIT. It is a sort of crash-course we devised to quickly bring our vendors up to global standards. A 7-member cross-functional team, made up of our manager's, offers intensive programmes in manufacturing techniques to our vendors – completely free of cost. It is a parallel process to our regular vendor management programme. And it is really an intermittent effort, not a continuous one.

Roychowdhury: So, the VIT isn't meant to be part of a long-term association with your vendors?

Niyogi: Actually, the whole objective of the VIT is to conduct a short-term programme – 10 weeks, to be precise – and to leave it to the vendor to continue with it. You could think of it as a supplement to our official Vendor Development Programme. So, while the overall goal of our partnership programme with our suppliers is joint product development, supervisory training and strategic planning, the VIT is focused on the shop floor. You know, manufacturing techniques and that kind of thing.…

Roychowdhury: Why isn't it part of your formal vendor development programme?

Rajeev Kshirsagar: May I take that, Gautam? You see, Arnab, we're doing this not just for ourselves. Nichita, our Japanese partner, is also using our efforts as a laboratory. If we're successful, they'll ask their companies in other countries to use the same method. If you ask me why they started with us, it is, probably, because our supplier-base is pretty

Contd...

Notes

undeveloped. So, it is a good testing ground for a new system. In fact, that is why they took special care to train two of our engineers for 9 weeks, so that they could then come and train our vendors in Japanese systems. But we weren't sure if it would work. So, we did not build the VIT into the other programme. We started out carefully too. We picked – handpicked, I must add – 10 of the medium-sized vendors out of our 128 suppliers to try out the VIT. And it has always been optional. Of course, we have gone on to cover close to 50 vendors now, but we are not sure whether we should continue.…

Niyogi: Perhaps I should explain a little about how the VIT works, Arnab. Once a vendor firm has agreed, we begin with a half-day presentation to its senior managers, where we try to allay their apprehensions – especially about additional costs, investments, or disruptions – and get them to commit themselves to the.…"

Niyogi's voice trailed off in Kshirsagar's ears as he recalled the way the whole thing had been explained to him. The man who had done the talking was a manager from Nichita, and he had made a powerful but dense presentation on how the VIT worked. Kshirsagar tried to relive that session 2 years ago.…

"…The standard presentation begins with a description of what continuous improvement is, and the benefits it brings in terms of cost-reduction and quality-enhancement. After that session is over, the VIT briefs other people in the vendor firm, and undertakes what is called a Factory Assessment. The Assessment is discussed with the supplier's senior management, and used to identify areas of concern and targets for improvement. Although based on the tools, techniques and experience of Nichita in Japan, the programme has been tailored to meet the specific needs of Indian suppliers.

The next step is the formation of an Improvement Team comprising the supplier's own people. It includes operators and supervisors from the relevant production area as well as from maintenance, process Engineering, quality, and, sometimes, administration. Next, targets for improvement are established. The team leader prepares the ground for the activity by briefing the members, and making the necessary resources available.

The first week is devoted to training. During the second week, the team splits into smaller groups to analyse and discuss the various processes to be improved. The groups use a combination of hard data and subjective opinions to identify the roots of the problem, and arrive at possible solutions.

In the third week, the individual groups reconvene as a team. The team makes a flow-diagram of each process so that everyone appreciates what is involved, and agrees on the changes that will bring the best benefits. The data that has been collected by the groups is analysed by the entire team.

The period between the fourth and the eighth weeks is spent on implementation. Although the VIT returns often to observe the progress, the responsibility for this phase vests entirely with the supplier's people. The VIT returns full-time in the ninth and tenth weeks to help the team review what it has learnt and achieved, and to ensure that all changes are fully documented. It also discusses the outstanding issues and concerns, and potential improvement projects. The final task is to make a presentation to senior managers, describing the changes achieved and the benefits gained.…"

Kshirsagar suddenly switched back to what Niyogi was saying as he realised that his CEO was explaining the improvements that had since been made to the process.

Roychowdhury stood for a moment in the long men's room, and recalled the briefing he had been given by his boss, Sampat 'Sam' Mathur.

Contd...

Notes

"All right, Arnab, here's your brief. You will be meeting Kshirsagar and Niyogi, who are the CEO and the Vice-President (Operations), respectively, of Indo-Nichita. Just to refresh your memory, which I know is in top gear first thing in the morning, that is the joint venture between Nichita and Indian Automotives. Now, Nichita's management in Tokyo counted some $60 billion in revenue from 23 countries last year while Indian Automotives' accountants put about ₹ 1,200 crore in the bank. But don't jump to conclusions, my boy. It is the Indians who run the show here. Nichita only gives them the designs, the technology, and the systems and techniques."

"What's the problem?" Roychowdhury had asked.

"That's what you must find out. All I know is that Niyogi called me last night, and said he was worried stiff about a vendor improvement programme they are conducting at the behest of their Japanese partners. You have to go and find out what the trouble is."

As he prepared to head back into Indo-Nichita's minimalist conference room – was it the Japanese influence or the Indian thrift, he wondered briefly – Roychowdhury invoked the photographic memory which had stood him in good stead so many times. Indo-Nichita had begun manufacturing cars in 1994. Nichita was a steady, but not spectacular performer since it had managed to increase sales by only about 15 percent every year. Check. And – how could he forget? – since it was now 5 years since it had started doing business, the joint venture must have indigenised completely by now.

Kshirsagar: "So long as we continued with the routine development stuff, none of our suppliers had any problems. I mean, which manufacturer doesn't do some kind of work in collaboration with its suppliers these days? The problem is, through the VIT, we are essentially telling them to radically – and, in some cases, totally – change the way they do things on their shop floor. For such changes to really work, it has to be part of the vendor's overall strategy, right? So we have to get involved in their strategy. But that implies that they have to open up their entire business to us so that we can work together.…

Roychowdhury: Which, of course, they won't since they are not going to tell you what prices they are getting from their other customers, right?

Niyogi: Absolutely. And it isn't just the price-data; it is also all kinds of other information. And that is making our vendors suspicious. They think we want to control them, and rob them off their customers so that they become completely dependent on us. Okay, may be all of them don't think that way. Some of them are quite progressive, and know what we are trying to do. But there is some resistance. And that is putting many of our relationships at risk, which is something we are worried about. Of course, all our contacts with our vendors are long-term. And we chose them after assessing their abilities, and setting cost and quality targets – not through tendering or anything like that. But if we come across as big brother to our suppliers, we are in trouble.…

Roychowdhury: I must ask an obvious question. I presume you must be having some kind of measure for checking how well your vendors are doing, and how efficiently your supply chain is working. So, have you checked on your gains from the VIT as distinct from your regular programme?

Kshirsagar: To be honest, it isn't easy to say. When Indo-Nichita started out in 1994, I understand that the average vendor rating was 35 on a scale of 100. That is up to 60 now although I can't say for sure how much of it is due to the VIT. But, judging from the fact that many of the techniques that have been transferred through the VIT are actually being used, I would say that the VIT has paid off pretty well. Which is why we are hesitant about calling it off altogether.…

Contd...

Notes

Niyogi: If I may add, the real objective of the VIT was not just to transfer as many techniques as a 10-week programme would allow. We actually want to set-off a continuous improvement process. But we are not really sure how much momentum is being sustained after those 10 weeks. We have no monitoring of that. For all I know, there'll be no long-term impact.…

Kshirsagar: And then there's another fear I have although I must add, Gautam doesn't share my views here. I feel that the VIT may be stretching our people, whose time would be used better in focusing on our core vendor development work.

Niyogi: Who knows, Rajeev? May be you're right. I'm not sure any more. So, can you help us, Arnab?

Questions

1. Is an initiative like the VIT the right approach in helping vendors improve their processes and their output? Should it be linked to the vendor's strategy? Or to the original equipment manufacturer's strategy?
2. Should something like the VIT be pursued continuously, or as a one-off programme? Should its coverage be extended to include non-manufacturing activities? Should it now be improved, or discarded? Or should it be integrated into Indo-Nichita's regular vendor-development strategy?

Source: P K Vasudeva, *International Marketing*, Excel Books.

8.5 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- Pricing is like a tripod, the three factors being costs, demand and competition. The price cannot be fixed below cost for long.
- Cost determines the floor price below which an exporter may not agree to sell the goods. Whatever be the price determined by the firm for its product it must consider the price and non-price factors before taking a final decision.
- An offer may also be in the form of printed price list where the goods have a standard export price.
- The export price structure like the domestic price structure begins on the factory floor. The export price structure is the basis of all exports price quotations, discount and commissions.
- There are various methods of calculating the price in the foreign market. The methods may be grouped into two – cost oriented export-pricing method and market oriented export pricing method.
- Pricing strategy is an important part of fixing the international price. Elasticity of demand is another factor, which influences the price.
- Price can best be defined in ratio terms, giving the equation

$$\text{Price} = \frac{\text{Resources given up}}{\text{goods received}}$$

- Different pricing strategies are used in different markets. These strategies can be Market Penetration Strategy, Probe Pricing Strategy, Follow the Leader Pricing Strategy, Skimming Pricing Strategy, Differential Trade Margins, Standard Export Pricing Strategy, Cheaper Price for Original Equipment and Higher Price for Spare Parts.

Notes

8.6 Keywords

Cheaper Price for Original Equipment and Higher Price for Spare Parts: To quote lower prices for the original equipment and charging higher prices for spares and replacement parts to be exported later as and when required.

Differential Trade Margins Strategy: Variation in trade margins is adopted by the exporter as the pricing strategy in foreign market.

Factors affecting Pricing decisions: Characteristics of the product, nature of its demand and philosophy of its management and the market characteristics.

Follow the Leader Pricing Strategy: Comparing its product with that of the leader and fixing the price of its product.

Marginal Cost Pricing: Determining the price based on the variable cost or direct cost.

Penetration pricing: Under this strategy, exporters offer a very low introductory price to speed up their sales.

Skimming pricing: Under this pricing, a very high introductory price is fixed to skim the cream of the demand at the very outset.

Standard Export Pricing Strategy: Exporter quotes the standard price or list price that is one price for all.

8.7 Review Questions

1. Discuss the price factors and non-price factors.
2. Explain different types of cost based pricing.
3. What are the factors that affect the pricing strategy of an international firm? What different pricing strategies can the firms adopt?
4. Are price distortions always bad? Justify your answer.
5. What is counter-trade and what are various types of counter-trade?
6. Explain the term counter-trade and counter purchase.
7. What is dumping? When does it become illegal? What can a seller do to circumvent anti-dumping regulations?
8. What is transfer price? What are the methods for determining transfer prices?
9. What is the effect of term of delivery on the price to be quoted by an exporter? Explain by giving an example.

Answers: Self Assessment

1.	Demand and Supply force	2.	Costs
3.	Supply	4.	Short-term
5.	Inelastic	6.	True
7.	False	8.	True
9.	False	10.	Goods received

Notes

11. Visible
12. High
13. Cost of Production
14. Bartar
15. External

8.8 Further Readings

Books

Cateora and Graham, *International Marketing*, McGraw Hill, 2007

Hans Mulhbacher, *International Marketing*, Thomson Learning

Jain, Subhash C., *International Marketing*, South Western

Justin Paul, *International Business*, 3rd Edition, Prentice Hall of India

Keith Lewis, *Introduction to International Marketing*, Crest Publications

Vasudeva, PK, *International Marketing*, Excel Books, New Delhi, 2010

Online links

http://www.slideshare.net/vagoel84/pricing-decisions-strategies

http://www.slideshare.net/chanvich/international-pricing-decisions-for-upload

http://www.egyankosh.ac.in/bitstream/123456789/35470/1/Unit-11.pdf

http://www.zainbooks.com/books/marketing/international-marketing_42_pricing-in-international-markets.html

http://www.powerfulwords.co.uk/sample-assignments/management/introduction-on-international-pricing-decisions.php

http://www.consumerpsychologist.com/intl_Price.html

Notes

Unit 9: Terms of Payment and Delivery

CONTENTS

Objectives

Introduction

9.1 Terms of Payment

9.1.1 Advance Payment

9.1.2 Open Account System

9.1.3 Consignment Sale

9.1.4 Documentary Collection

9.2 Types of payment

9.2.1 Clean Payments

9.2.2 Payment Collection of Bills in International Trade

9.2.3 Letter of Credit L/C

9.3 Dumping

9.3.1 Types of Dumping

9.4 Counter Trade

9.4.1 Types of Counter-trade

9.5 Transfer Pricing

9.6 Grey Marketing

9.7 Summary

9.8 Keywords

9.9 Review Questions

9.10 Further Readings

Objectives

After studying this unit, you will be able to:

- Discuss export pricing and approaches in Export pricing
- Explain the different means and types of Payment
- Explain Counter trade and Types of counter trade
- Discuss Dumping
- Discuss Grey Marketing
- Explain Transfer pricing and the different approaches to Transfer pricing

Notes

Introduction

A major challenge faced by international marketers is trying to set prices for their products and services in foreign markets. There are many variable factors that influence international pricing, such as currency exchange rates, economic conditions, production expenses, competitors and the consumers in the target market. International pricing strategies require careful planning and ongoing management in order to be effective.

There are various factors to be considered while setting prices, like the production costs incurred by the company, standard of living and income level of the host country, openness of people, and various other factors. International marketers should also consider the buying behaviour of the population to determine what value people perceive certain products and services to be worth.

The right international pricing strategies are crucial to the success of any companies marketing efforts. The more you understand about your target market, the better you will be able to set your prices at a level that will appeal to consumers whilst still generating a positive return for your business.

9.1 Terms of Payment

The central bank of any country is usually the driving force in the development of the national payment system. The Reserve Bank of India (RBI) as the central bank of the country has been playing this developmental role and has taken several initiatives for a safe, secure, sound and efficient payment system. The buyer and the seller incorporate the details in the contract of sale itself that how payments for goods to be send. Depending upon the bargaining power of the buyer and seller, provisions of Exchange Contracts in the countries concerned, the duration of trade relationship between the buyer and seller and also the credit worthiness of the parties concerned, terms of payment are arrived at. It can also be said in general that, terms of payment reflects the extent to which the seller requires a guarantee of payment before he loses control over the goods.

Caution There are four main methods using by the exporters and importers to fulfil the contract value. These are Advance payment, open Account System, Consignment Sale and Documentary Collection.

9.1.1 Advance Payment

1. ***Meaning:*** An amount paid before it is earned or incurred,

Example: A prepayment by an importer to an exporter before goods are shipped, or a cash advance for travel expenses.

2. This method is the most desirable for the Exporter; the Importer has to rely on the integrity of the Exporter and his capacity to execute the order in time. More than that, the entire transaction is financed by the Importer in this method thereby making the transaction more costly for him; besides exposing the Importer to credit risks. On account of the above factors some countries have imposed Exchange Control restriction regarding imports.

3. In India advance payment is allowed only in respect of import of books, periodicals, life saving payment apparatus, capital goods, machinery and a few other items.

Notes

4. Advance payment of USD 2500/- or equal to this amount can be made for commercial purposes. If the following conditions are followed by the contract party:
   a) Documents produced by the parties must be evidence showing the demand of the overseas supplier.
   b) Payment must be given to the overseas supplier.
   c) Endorsement in the import licence if any.
   d) Import is permitted either by a licence covered under OGL. As regards exports, depending on the nature of goods exported and the competitiveness of the product, advance payments are insisted.

Example: In the case of export of vegetables and fruits, it is customary to demand 100% advance payment.

   e) Application in F.A.I. in duplicate.
   f) Importer will submit evidence of import in the Exchange Control Copy of Bill of Entry/Postal wrapper within a period of 3 months.

9.1.2 Open Account System

1. It is just opposite to the Advance payment.
2. ***Meaning:*** When an Exporter agrees to sell the commodity on open account system to the Importer, he despatches the goods to the buyer directly followed by the transport documents and an invoice requesting payment.
3. The Exporter loses control over the goods completely and leaves everything on the integrity of the buyer.
4. It is beneficiary to the Importer; the Exporter bears the entire financial and commercial risks. This system is normally resorted to when the goods command buyer's market.
5. The commercial risk is, to some extent minimised by taking a policy of ECGC. To take care of the interest of the Indian Exporters, there are Exchange Control restrictions imposed by RBI on open account export Sales.

9.1.3 Consignment Sale

If you sell goods sold on consignment, you have agreed to sell the goods without first buying those goods from the owner. Typically, your agreement specifies one of the following:

1. You agree to sell the goods on behalf of the owner as an agent
2. You agree to purchase the goods for an agreed price when you find a buyer.

There are no restrictions on what goods can be sold on consignment. Goods regularly sold on consignment include: motor vehicles, boats, wedding and formal dresses, cameras, farm machinery and artworks.

Example: Selling on consignment means giving your car to someone else, usually a motor dealer, to sell on your behalf. Generally you set the minimum price you will accept and the dealer will add a commission to it.

Notes

While the ownership and possession passes to the buyer in the case of open account system, the ownership remains with the seller in the case of consignment sale.

In the case of goods exported on consignment basis, freight and marine insurance must be arranged in India.

9.1.4 Documentary Collection

The Exporter prepares the proper financial and commercial document including the transport document and hands over to his Banker requesting in clear terms as to how the documents are to be delivered to the Importer at the other end.

Four main parties to a documentary collection are the Principal, i.e. the Exporter, The Remitting Bank – The Exporter's Bank, The Collecting Bank – The Bank in the Importer's country and The Importer, the consignee.

When the Exporter wants the Bank to hand over the export documents to the Importer only against payment immediately, the bill of exchange is called a Sight Draft. In case the Exporter wishes to give some time (30 days, 60 days, 90 days, etc.) to the Importer to arrange for the funds but at the same time would not like to part with the documents before payment of money, the appropriate bill of exchange is called a D/P (Document against Payment).

Banks act as intermediaries to collect payment from the buyer in exchange for the transfer of documents that enable the holder to take possession of the goods. The procedure is easier than a documentary credit, and the bank charges are lower. The bank, however, does not act as surety of payment but rather only as collector of funds for documents.

For the seller and buyer, a documentary collection falls between a documentary credit and open account in its desirability.

Self Assessment

Fill in the blanks:

1. The ....., the central bank of India has been driving force in the development of the national payment system in India.
2. Under the ..... system, an amount is paid before it is earned or incurred.
3. In an ..... system, when an Exporter agrees to sell the commodity to the Importer, he despatches the goods to the buyer directly followed by the transport documents and an invoice requesting payment.

9.2 Types of payment

There are three standard ways of payment methods in the export import trade international trade market:

1. Clean Payment
2. Collection of Bills
3. Letters of Credit L/c

9.2.1 Clean Payments

In clean payment method, all shipping documents, including title documents are handled directly between the trading partners. The role of banks is limited to clearing amounts as required.

Notes

Clean payment method offers a relatively cheap and uncomplicated method of payment for both importers and exporters.

There are basically two types of clean payments:

1. ***Advance Payment:*** In advance payment method the exporter is trusted to ship the goods after receiving payment from the importer.
2. ***Open Account:*** In open account method the importer is trusted to pay the exporter after receipt of goods.

The main drawback of open account method is that exporter assumes all the risks while the importer get the advantage over the delay use of company's cash resources and is also not responsible for the risk associated with goods.

9.2.2 Payment Collection of Bills in International Trade

The Payment Collection of Bills also called "Uniform Rules for Collections" is published by International Chamber of Commerce (ICC) under the document number 522 (URC522) and is followed by more than 90% of the world's banks.

In this method of payment in international trade the exporter entrusts the handling of commercial and often financial documents to banks and gives the banks necessary instructions concerning the release of these documents to the Importer. It is considered to be one of the cost effective methods of evidencing a transaction for buyers, where documents are manipulated via the banking system.

There are two methods of collections of bill:

1. ***Documents against Payment D/P:*** In this case documents are released to the importer only when the payment has been done.
2. ***Documents against Acceptance D/A:*** In this case documents are released to the importer only against acceptance of a draft.

9.2.3 Letter of Credit L/C

Letter of Credit also known as Documentary Credit is a written undertaking by the importers bank known as the issuing bank on behalf of its customer, the importer (applicant), promising to effect payment in favour of the exporter (beneficiary) up to a stated sum of money, within a prescribed time limit and against stipulated documents. It is published by the International Chamber of Commerce under the provision of Uniform Custom and Practices (UCP) brochure number 500.

Various types of L/Cs are:

1. ***Revocable & Irrevocable Letter of Credit (L/C):*** A Revocable Letter of Credit can be cancelled without the consent of the exporter. An Irrevocable Letter of Credit cannot be cancelled or amended without the consent of all parties including the exporter.
2. ***Sight & Time Letter of Credit:*** If payment is to be made at the time of presenting the document then it is referred as the Sight Letter of Credit. In this case banks are allowed to take the necessary time required to check the documents. If payment is to be made after the lapse of a particular time period as stated in the draft then it is referred as the Term Letter of Credit.

Confirmed Letter of Credit (L/C)

Notes

Confirmed Letter of Credit (L/C) under a Confirmed Letter of Credit, a bank, called the Confirming Bank, adds its commitment to that of the issuing bank. By adding its commitment, the Confirming Bank takes the responsibility of claim under the letter of credit, assuming all terms and conditions of the letter of credit are met.

Self Assessment

Fill in the blanks:

4. In ..... method, all shipping documents, including title documents are handled directly between the trading partners and the role of banks is limited to clearing amounts as required.
5. There are two methods under Collections of bill method, ... and ..... .
6. The ..... is published by the International Chamber of Commerce under the provision of Uniform Custom and Practices (UCP) brochure number 500.

9.3 Dumping

The first and clearer principle is that prohibiting dumping. A second practice prohibited under the GATT is the payment of unfair subsidies, bounties, or grants. The principle opposes attempts by governments to distort the world market by specifically subsidizing exports. As more governments assist industry to promote economic growth, the issue of what an unfair subsidy is has become considerably more complex. More governments use subsidies in a variety of forms, such as grants, tax forgiveness or deferral, or low-interest loans, in order to encourage businesses to train workers, locate in depressed areas of a country, develop needed products, or restructure industries. When those subsidies are aimed at export generating businesses, there is the risk that the lowered cost of producing products for export will distort world markets.

Dumping is a form of price discrimination. It is the practice of charging different prices for the same product in similar markets. As a result, imported goods are sold at prices so slow as to be detrimental to local producers of the same kind of merchandise.

9.3.1 Types of Dumping

The major types of Dumping prevalent today are:

- Over-capacity dumping
- Government-support dumping
- Tactical dumping (discriminatory pricing)
- Predatory dumping

Over-capacity dumping occurs when a company produces and sells products at a price that is lower than the average cost of production, trying to cover at least its fixed costs.

Government-supported dumping takes place when the government supports a particular industry by providing subsidies, because of which such firms can sell their products at a price below the production costs.

Example: Agricultural products are often dumped in this manner.

Notes

Tactical dumping occurs when a firm sells the same product at different prices in different markets.

Predatory dumping aims at eliminating the competition to gain exclusive control of the market. It is an extreme form of discriminatory pricing where the firm aims at monopolizing a market. This method of dumping is most likely to cause destructive injury to the country where the product is being dumped.

Notes The General Agreement on Tariffs and Trade states the principles and rules to be followed by the member countries in terms of imposing anti-dumping duties, countervailing duties and safeguard. It has prescribed detailed guidelines under the specific agreements, which have been incorporated in the national legislation of the countries which are members of WTO. Indian laws have also been amended with effect from 1.1.95 to match the provisions of the GATT agreement.

The phenomenon of dumping is actually condemnable as producers do sell their goods at different prices to different market. It is also not unusual for prices to vary from time to time depending on supply and demand conditions prevailing in the market. Also, discrimination in the form of dumping is a common international commercial practice. Moreover, export prices are lower than the domestic prices. Therefore, from the point of view of antidumping practices, there is nothing illegal about the practice of dumping. However, when dumping leads to material injury to the domestic industry of the country where it is being done, the designated Authority initiates investigations and imposition of anti-dumping duties.

Caselet

Sports Shoes (China PR)

The product in the investigation was Sports Shoes originating in or exported from China P.R. The product is a non-leather sports foot wear used for sports applications.

Anti-dumping investigation was initiated suo-moto by the DGAD on 20.11.2000 into the alleged dumping of Sports Shoes originating in or exported from China P.R. On 25.01.2001, preliminary findings were notified and anti-dumping duty was recommended as follows:

(a)	Unbranded & low end branded excluding Nike/Reebok/Adidas	6.277 US$/Pair
(b)	Branded category like Nike/Reebok/Adidas	18.44 US$/Pair

On 12.09.2001, final findings were notified and anti-dumping duty as a difference between the reference prices in the range of US $ 5.044 to US $ 12.9 and landed value of imports per pair was recommended. Definitive anti-dumping duty has been imposed by the Department of Revenue vide notification dated 25.9.2001.

Source: http://commerce.nic.in/traderemedies/productprofile/cases_5.pdf

Did u know? Sections 9A, 9B and 9C of the Customs Tariff Act, 1975 as amended in 1995 and the Customs Tariff (Identification, Assessment and Collection of Anti-dumping Duty on Dumped Articles and for Determination of Injury) Rules, 1995 form the legal basis for anti-dumping investigations and for the levy of anti-dumping duties. These laws are based on the Agreement on Anti-Dumping which is in pursuance of Article VI of GATT 1994.

Self Assessment

Notes

Fill in the blanks:

7. ..... is a form of price discrimination where different prices are charged for the same product in similar markets.
8. ..... dumping is an extreme form of discriminatory pricing where the firm aims at eliminating competition and monopolizing the market.
9. The ..... states the principles and rules to be followed by the member countries in terms of imposing anti-dumping duties, countervailing duties and safeguards.

9.4 Counter Trade

Counter trade constitutes an estimated 5-30 percent of total world trade. Counter-trade greatly proliferated in the 80s. Counter-trade is one of the oldest forms of trade in the government mandate to pay for goods and services with something other than cash. It is a practice that requires a seller as a condition of sale to commit contractually to reciprocate and undertake certain business initiative that compensate and benefit the buyer. In short, a good-for-goods deal is Counter-trade.

There are three primary reasons for Counter-trade:

(i) provides a trade financing alternative to those countries that have an international debt and liquidity problems,

(ii) relationship may provide LDCs and MNCs with access to new markets, and

(iii) fits well conceptually with the resurgence of bilateral trade agreements between the governments. Advantages of Counter-trade cluster around three subjects: (i) market access, (ii) foreign exchange, and (iii) pricing.

9.4.1 Types of Counter-trade

There are several types of Counter-trades including barter, counter-purchase, compensation trade, switch trading, and offsets and clearing agreements.

Barter is the simplest of many types of Counter-trades. It is a one time direct and simultaneous exchange of products of equal value (one product or another). By removing money as a medium of exchange, barter makes it possible for cash tied countries to buy and sell. Although price must be considered in any counter-trade, price is only implicit and best in the case of barter.

Counter-purchase occurs when there are two contracts or a set of parallel cash sale agreement each paid in cash. Unlike barter, which is a single transaction with an exchange price only implied, counter-purchase involves two separate transactions—each with its own cash value. A supplier sells a facility or product at a set price and orders unrelated or non-resultant products to offset the cost to the initial buyer. Thus, the buyer pays with hard currency whereas supplier agrees to buy certain products within specified period. Therefore, money does not need to change hands. In fact the practice allows the original buyer to earn back the currency.

Next is compensation trade or buy back. A compensation trade requires a company to provide machinery, factories or technology and to buy products made from this machinery over an agreed on period. Unlike counter-purchase, which involves two unrelated products, the two contracts in a compensation trade are highly related. Under a separate agreement to the sale of plant or equipment, a supplier agrees to buy part of the plant's output for a number of years.

Notes

In an offset, a foreign supplier or manufacturer is required to assemble the product locally and purchase local components as an exchange for the right to sell its products locally. In effect, the supplier has to manufacture at a location that may not be optimal from an economic point of view. Offsets are often found in purchases of aircraft and Military equipment. Clearing Agreement is clearing account barter with no currency transaction required. With a line of credit being established in the central banks of two countries, the trade in this case is continuous and the exchange of products between two governments is designed to achieve an agreed on value or volume of trade tabulated or calculated in non-convertible "clearing account units".

Task Give examples of each type of counter-trade. Also discuss about any one in details.

Self Assessment

Fill in the blanks:

10. Trade that involves a good being traded for another good is called …….
11. In…….type of counter-trade, three parties are involved.
12. ..... occurs when there are two contracts or a set of parallel cash sale agreement each paid in cash.

9.5 Transfer Pricing

In international marketing, different units under the same corporate body but located in different foreign countries, exchange goods and services among themselves. The pricing of such exchanges (of goods and services) is known as transfer pricing. A rational system of transfer pricing is required to ensure profitability at each level. Global companies, while determining transfer prices for supplies to subsidiaries and affiliated in foreign countries, take into account a number of factors like taxes and duties leviable in the countries concerned, their market conditions, ability of the potential customers to pay for the customers to pay for the company's products, different profit transfer rules, Marketing Mix conflicting objectives of joint venture partners and varying government regulations. There are four major approaches to transfer pricing:

1. Transfer at cost
2. Transfer at cost plus overhead and margin
3. Transfer at price derived from end market prices
4. Transfer at "arm's length price"

Details of these methods are given below:

Transfer at Cost Method: This approach is based on the assumption that lower costs lead to better performance by the subsidiary/affiliate. This also helps to keep duties at the receiving end to the minimum. The companies using this method of transfer pricing do not have expectations of profits on transfer sale. Rather, the receiving unit (subsidiary or affiliate) is expected to generate profit by subsequent sale.

Transfer at Cost plus Method: This method is applied in recognition of the principle that profit must be shown for every product or service at every stage of movement through the corporate system. But this may result in pricing that is completely unrelated to the competition or demand conditions in foreign markets. However, some companies having wide experiences and information about various foreign markets use this method quite successfully.

Notes

Market-based Transfer Pricing Method: Under this method, the price is derived from the competitive foreign market price. It may therefore be too low for the selling subsidiary and the production cost may not be covered. It may be fruitfully used to enter a new market which may be too small to support local manufacturing. This method enables a company to establish its name or franchise in the new market without undertaking production there.

Transfer at "Arm's Length Price": In this method, the transfer price is the price that unaffiliated parties in a similar transaction agree on. The arm's length price may be usefully applied if it is viewed not as a single point price but rather a range of prices. In fact, pricing at arm's length in the case of differentiated products, results not in predeterminable specific prices but in prices that fall within a predeterminable range. The problem with this method occurs when the product has no external buyers or is sold at different prices in different markets.

Of all the four methods, the cost plus and the market based pricing are the most popular methods used by companies in the case of inter firm transfer.

Self Assessment

State whether the following statements are true or false:

13. Different units under the same corporate body may be located in different foreign countries. The pricing of exchanges of goods and services among them is known as transfer pricing.
14. Transfer at "Arm's Length Price" approach is based on the assumption that lower costs lead to better performance by the subsidiary/affiliate.

Task Give a practical illustration of "Transfer at Arms Length price".

9.6 Grey Marketing

Intellectual property owners face an additional problem in preserving their property rights. The problem is that, under some circumstances, legitimate goods will enter a market through unauthorised channels. Such goods are known as grey market goods. Grey market goods appear either because a seller has priced goods differently in different markets or because currency values change, making it profitable to acquire goods in other markets and import them.

Example: If the value of the dollar is high against the German mark, it may make sense to buy German cars directly from German sellers, rather than through the authorised American distributors.

Grey market goods pose several problems for intellectual property owners. The primary problem may be the disruption they cause to networks of authorised distributors and dealers, who feel undercut by the lower priced goods. For consumers, the main problem with grey market goods may be getting warranty service if something goes wrong with the goods. Warranty service is sometimes only available from authorised dealers. In addition, in some cases, instructions and safety information may not be in the language of the market in which the sale takes place.

The same laws that bar the import of counterfeit goods may also bar the import of some grey market goods. Many legal systems are beginning to encounter grey market litigation. The United States has struggled with the problem of grey market goods for 70 years. As discussed earlier, by section 526 of the Tariff Act of 1930, the owner of a trade mark may exclude imports

Notes

that bear an identical mark. The statute would seem to allow US trade mark owners to exclude all grey market goods by simply denying permission for their import. However, the customs service, over the years, interpreted the statute so as to allow many grey market imports.

Grey market practices came up before the Supreme Court in 1988, in a case brought by a trade association and by Cartier Inc. against K Mart and 47th Street Photo Inc., two of the United States' largest grey market importers. In K Mart vs Cartier, 108 US 1811 (1988), the Supreme Court, in an extremely confusing decision with different majorities for different parts of the decision, set out an analytical framework and some guidelines for grey marketers.

The Court set out five structures for grey market imports, and for each, ruled on whether section 526 required customs to exclude the goods unless the US trade mark owner authorised the import.

Case 1: A US firm purchases the rights to register and use a foreign firm's trade mark in the United States, to sell the foreign firm's products in the United States. In this case, the court ruled that imports of the same goods by the foreign manufacturer or by a third party who has purchased the goods from the foreign manufacturer would unfairly jeopardise the value of the US trade mark holder's investment. Thus, section 526 requires the customs service to exclude imports in this case.

Case 2A: A foreign firm manufactures goods overseas. A US subsidiary of that firm registers the foreign trade mark in the United States. The court held that Customs could allow the grey market goods to enter the United States.

Case 2B: This case is the reverse of 2A. Here, a US corporation creates a foreign subsidiary to manufacture and sell trade marked goods. Again, the Court held (by a different majority) that customs could allow the goods to enter the United States.

Case 2C: Here, the US enterprise establishes a branch or a division to manufacture goods offshore. The Court held that these goods were not "of foreign manufacture", as the statute required, so customs could allow the goods to enter.

Case 3: In this case, a US holder of a US trade mark authorises a foreign manufacturer to make goods and use a trade mark in foreign markets. That manufacturer or a third party then imports the goods. The Court ruled that section 526 required the exclusion of those imports, unless the US trade mark holder consented to the import.

The net effect of the several different votes on the grey market scenario was that grey market imports were somewhat restricted. If there is common control between the United States and the foreign firm, either as parent, subsidiary or branch, the imports may enter. If the US and foreign businesses are independent, the US trade mark holder has the right to prevent unauthorised imports.

Self Assessment

Fill in the blanks:

15. ..... goods appear either because a seller has priced goods differently in different markets or because currency values change, making it profitable to acquire goods in other markets and import them.
16. The same laws that bar the import of ..... goods may also bar the import of some grey market goods.

Notes

Case Study

Identifying Intercompany Transactions and Scoping an Engagement

Network Inc. is a U.S. company that, together with its worldwide subsidiaries, is engaged in the design, development, manufacture, and sale of networking hardware and software products; and provides related support and services. Network Inc. files a consolidated U.S. tax return with its U.S. subsidiaries including Network Technology, Inc. ("Network TI"). Network International, BV ("Network BV") is a wholly owned subsidiary of Network TI, incorporated in The Netherlands.

Network TI, a U.S. corporation, owns all the worldwide intellectual property. Network Inc. and Network BV (collectively the "Network Manufacturers") manufacture and sell Network products, and provide related support and services using intellectual property licensed from Network TI. Network Inc. has an intercompany arrangement for Network BV to distribute Network Inc.'s products in the Dutch markets, and for Network BV to sell to Network Inc. printed circuit board assemblies ("PCBAs" or "boards") for incorporation into Network Inc. products. Network Inc. and Network BV have an intercompany arrangement for Network Inc. to distribute Network BV's products in North American markets.

The remaining members of the Network group (that is the "Network Sales & Service Entities") are responsible for distributing or marketing Network products throughout the rest of the world and for providing services to the Network Manufacturers. These services include marketing support services to Network Inc. and technical support to local customers on behalf of Network Inc. and Network BV. These entities are wholly-owned foreign subsidiaries of Network Inc.

Network Inc. also provides the following services to Network BV, in connection with Network BV's manufacturing and distribution activities:

- marketing support and other marketing services;
- general sales support services;
- procurement services relating to the manufacture of goods; and
- treasury, tax, and such other general and administrative services as may be mutually agreed.

Network Inc just hired a new Tax Director. The Tax Director has just found out that there are multiple tax audits in process or that will commence shortly and is aware that transfer pricing is leading tax issue in today's environment. She is asking for your help to understand what she should do to ensure the company has adequately documented its transfer pricing positions and also to consider how to price the transactions on a go forward basis.

1. Work within your table groups to identify all of the intercompany transactions from the information provided above and sketch out a transaction flow diagram. This exercise should take approximately 30 minutes.
2. Prepare at least five key scoping questions that you will need to ask the Tax Director in order to document the company's transfer pricing on a global basis. This exercise should take approximately 30 minutes.

Contd...

Notes

3. Prepare an information document request for the Tax Director in order to ensure you have the data and background required for your analysis. This exercise should take approximately 30 minutes.

Question:

Analyse the case in your own words.

Source: http://www.cob.sjsu.edu/nellen_a/Case%20Study%201%20Package.pdf

9.7 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- The export price quotations may not be the same for all markets.
- Prices may differ from market to market due to various reasons viz. political influence, buying capacity, financial and import facilities, total market turnover and other pricing and non-pricing factors, etc. in order to make the local price of the product competitive.
- In some markets prices may be higher in some others they may be cost price or in many others; they may be less than the cost price.
- Dumping is a form of price discrimination. It is the practice of charging different prices for the same product in similar markets. Each involves charging lower prices abroad than at home.
- The major types of Dumping prevalent today are Over-capacity dumping, Government-support dumping, Tactical dumping (discriminatory pricing) and Predatory dumping
- The different kinds of counter trading are Barter, Counter-purchase, compensation trade or buy back, and Offset.
- In international marketing, different units under the same corporate body but located in different foreign countries, exchange goods and services among themselves. The pricing of such exchanges (of goods and services) is known as transfer pricing.
- The different types of Transfer pricing are Transfer at cost, Transfer at cost plus overhead and margin, Transfer at price derived from end market prices and Transfer at "arm's length price".

9.8 Keywords

Advance Payment Mode: An amount paid before it is earned or incurred.

Consignment Sale: Agreeing to sell the goods without first buying those goods from the owner.

Counter-trade: A good-for-goods deal.

Documentary Collection: The Exporter prepares the proper financial and commercial document including the transport document and hands over to his Banker requesting in clear terms as to how the documents are to be delivered to the Importer at the other end.

Dumping: Exporting goods at prices lower than the home-market prices.

Grey Marketing: When legitimate goods will enter a market through unauthorized channels.

Open Account System: When an Exporter agrees to sell the commodity on open account system to the Importer, he despatches the goods to the buyer directly followed by the transport documents and an invoice requesting payment.

Notes

Transfer Pricing: The pricing exchange of goods and services between different units under the same corporate but located in different countries.

9.9 Review Questions

1. Define Export pricing.
2. What is the role of RBI in Export Pricing in India?
3. Which are the different terms under Pricing of an export transaction? Explain in brief.
4. Which are the different modes of payment in an Export transaction? Explain in brief.
5. Define Dumping. Which regulatory body has laid down anti-dumping laws?
6. Explain the various forms of dumping.
7. What is counter trade? Why does a country indulge in counter-trade?
8. Explain Transfer pricing. Which are different forms of transfer pricing?
9. Explain "Transfer at Arms Length Price" with the help of an example.
10. Explain what Grey Marketing is.

Answers: Self Assessment

1. Reserve Bank of India (RBI)
2. Advance Payment system
3. Open system
4. Clean Payment System
5. Documents against Payment (D/P), Documents against Acceptance(D/A)
6. Letter of Credit
7. Dumping
8. Predatory
9. General Agreement on Tariffs and Trade
10. Counter
11. Switch
12. Counter purchase
13. True
14. False
15. Grey market
16. Counterfeit

9.10 Further Readings

Books

Cateora and Graham, *International Marketing*, McGraw Hill, 2007

Charles W.L. Hill, *International Business Competing in the Global Marketplace*, 4th Edition, Tata McGraw-Hill Publishing Company Limited

Chase Richard, Jacob Robert, Aquillano and Agarwal Nitin, *Operations Management*, 11th Edition, Tata McGraw-Hill Publishing Company Limited

Justin Paul, *International Business*, 3rd Edition, Prentice Hall of India

Vasudeva, PK, *International Marketing*, Excel Books, New Delhi, 2010

Notes

Online links

http://www2.sozo.ac.jp/pdf/kiyou18/11sawa.pdf

http://commerce.nic.in/traderemedies/Anti_Dum.pdf

http://commerce.nic.in/traderemedies/productprofile/cases_5.pdf

http://www.cob.sjsu.edu/nellen_a/Case%20Study%201%20Package.pdf

http://toolkit.smallbiz.nsw.gov.au/part/21/106/491

Notes

Unit 10: International Logistics and Distribution Channels

CONTENTS

Objectives

Introduction

10.1 International Logistics

10.2 International Distribution – Definition and Importance

10.2.1 Importance of Distribution

10.3 Direct and Indirect Channels

10.3.1 Types of intermediaries: direct channel

10.3.2 Types of Intermediaries: Indirect Channel

10.4 Factors Involved in Distribution Systems

10.5 Value Chain Concept

10.5.1 Linking Value Chain Analysis to Competitive Advantage

10.6 Modes of Transportation

10.6.1 Land

10.6.2 Air

10.6.3 Water

10.7 Summary

10.8 Keywords

10.9 Review Questions

10.10 Further Readings

Objectives

After studying this unit, you will be able to:

- Recognize the components of international logistics system
- Define distribution and state its relevance
- Compare direct and indirect channels
- List the factors affecting distribution and modes of transportation
- Discuss the need for packaging and problems associated with packaging

Introduction

Now after learning the first two Ps of international marketing, you will learn the third P of marketing – Place (international distribution and logistics). In general, you must have noticed that the greater the distance between the product source and the target market, the greater time

Notes

delay for delivery and the higher transportation cost. However, innovation and new transportation technologies are cutting both time and dollar costs. To facilitate global delivery, transportation companies such as CSX Corporation are forming alliances and becoming an important part of industry value systems. Manufacturers can take advantage of intermodal services that allow containers to be transferred between rail, boat, air and truck carriers.

Did u know? Today, transportation expenses for U.S. exports and imports represent approximately 5 per cent of total costs. In Europe, the advent of the single market means fewer border controls, which greatly speeds up delivery times and lower costs.

10.1 International Logistics

Having sketched in the broad picture of international marketing, we are ready to analyze the approaches of management to international logistic planning. In supplying world markets, companies try to work out systems that will be competitively practical and permit lowest cost operation so that profit is maximized. This is one of the key components of the global unification strategy upon which the overall effectiveness of a multinational firm depends. Looking at the operations of U.S. companies, we find that logistic systems are commonly composed of four main components.

Export of finished products from the United States. Virtually all companies start their logistic planning with a strong preference for exporting from the United States. Manufacture abroad always involves some risks, along with the complications of managing operations from a distance. Furthermore, exports from the United States add to the volume of output of domestic plants, making them more efficient.

Manufacture in a foreign country for sale in that country. Under this heading fall two types of situations. First are the plants in less developed countries. Companies selling goods in these countries are repeatedly confronted with the choice of manufacturing on a protected basis within the country or being excluded by restrictions designed to protect those who are willing to manufacture. Sometimes companies have decided to take the second choice rather than make sizable investments of money and manpower in small markets. But because of the long run potential in the developing countries, most companies are reluctant to be frozen out of them.

Foreign plants producing for local and export markets. This type of operation may be expected to increase with the reduction of trade restrictions under international agreements and especially with the development of common markets. A major disadvantage of foreign manufacture has been the high cost of producing on a small scale for one-country markets.

As barriers to trade are lowered, therefore, companies have shifted toward logistic systems based on small number of fairly large plants located at strategic spots around the world.

Export of components from the United States and third countries. Although many finished products cannot be exported from the United States, it is generally possible to export some parts or supplies for use in foreign plants, especially those manufacturing complex products like drugs, automobiles, and electronic equipment.

Self Assessment

State whether the following statements are true or false:

1. The costs involved in manufacturing plants in foreign country catering to the local needs only are generally low making it easy for exporters to export.

Notes

2. It is possible to export components of machines and drugs, if it is not possible to export finished versions.

10.2 International Distribution – Definition and Importance

Distribution is the course that goods take between production and the final consumer. This course often differs on a country by country basis and MNCs will spend a considerable amount of time in examining the different systems that are in place, the criteria to choose distributors and channels and how distribution segment will be employed.

10.2.1 Importance of Distribution

The marketing function of distribution involves the critical process of ensuring that the products of a firm reach the proper location for sale at the proper time and in proper quantity. Breaks in the distribution flow can have critical ramifications, in the form of disgruntled customers, spoiled or damaged goods, excessive costs, and lost sales. Thus, the type of product being transported determines the appropriate method of distribution and choice of channel.

Distribution decisions are also of critical importance because they are often long-term in nature, involving the signing of contracts with transporters or equipment leasers or the development of expensive capital equipments or infrastructures, such as rail lines, wharfs, ports, docks and loading facilities.

This process, difficult in domestic markets grows more complicated in international environments because it has two stages. First, the international exporter must transport goods from the domestic production site the foreign market, and then establish methods of distribution for the goods within the foreign country.

Numerous players within distribution systems are required to get goods to markets. The distribution chains begin with the producers of the goods and then generally close through an intermediary or in the form of a wholesaler or distributor, whose in turn provides the retailer with his goods for the sale. Other services provided in the distribution of goods are storage of facilities, transportation to market via rail, truck, barge or plane and insurance services for those goods being carried between the nations.

This relatively simple scenario becomes much more complicated with the addition of the international component, at which point other people enter the act to facilitate these exchanges. There are freight forwarders, who see the details of international transportation, and exporters and importers who conduct their international trading as either agents or brokers. Sometimes, these individuals seek title to the goods and trade them on their own behalf (merchant middlemen); alternatively, they represent the firms' interests and arrange for the distribution of goods for a fee (agent middlemen). Other players in the distribution game are resident buyers who work in foreign market to acquire goods and foreign sales agents who sell a product line in international market. The classifications are augmented by such entrants in the process as export management companies, which provide distribution services for firms under contract; buyers for exports, who actively seek merchandise for purchase by the principals they represent and selling groups, such as those established in the United States under the terms of the Webb-Pomerene Act to promote trade. Some agents specialize and focus primarily on barter or counter trade agreement with non-market economy countries. Further down the chain, key players are those who deal directly with customers such as sales force, door to door sales persons, individual merchants, and the customers themselves.

Notes

Task Take example of any Indian 'International' Company and find out the international distribution system of that company.

Self Assessment

State whether the following statements are true or false:

3. The choice of distribution channel and mode of transport should depend on the type of product to be distributed.
4. Individual merchants deal directly with the customers.

Caselet

Amway's Direct Distribution

A large number of consumers have started becoming members of Amway because the products are directly available from the manufacturer. In the distribution system, the cost of the product is divided into manufacturing cost and distributing cost. Manufacturing cost of a product is 60 per cent and the distribution cost is 40 per cent. In case distribution cost is reduced in the international market, the cost of the product will come down market the product highly competitive in the international market.

Amway is one of the international companies which have reduced its distribution cost by more than 30 per cent. That is why its products become cheap and this 30 per cent saving is distributed among the members of Amway.

If a consumer buys any product directly from the manufacturer, it can easily save 40 per cent. However, everyone cannot do this because the manufacturing units are invariably at far of distances, hence, the cost of transportation and other handling charges have to be borne by the consumer. That is why direct marketing is not very popular in the international market.

Source: PK Vasudeva, *International Marketing*, 3rd Edition, Excel Books.

10.3 Direct and Indirect Channels

When the Companies have to market abroad they use two principal distribution channels: (i) direct selling and (ii) indirect selling.

Direct selling is employed when a manufacturer develops an overseas channel. This channel requires that the manufacturer deals directly with a foreign party without going through an intermediary in a home country. The greatest advantage of direct selling channel is the active market exploitation, since the manufacturer is more directly committed to its foreign markets.

Direct selling has a number of problems also. It is difficult channel to manage if the manufacturer is unfamiliar with foreign market. Moreover, the channel is time consuming and expensive. Without a large volume of business the manufacturer may find it too costly to maintain the channel.

Indirect selling also known as the local or domestic channel is employed when a manufacturer in the United States for example, markets its product through another US firm that acts as the

Notes

manufacturer's sales intermediary (middleman). As such, the sales intermediary is just another local or domestic channel for the manufacturer because there are no dealings abroad with a foreign firm. By exporting through an independent local middleman, the manufacturer has no need to set up an international department.

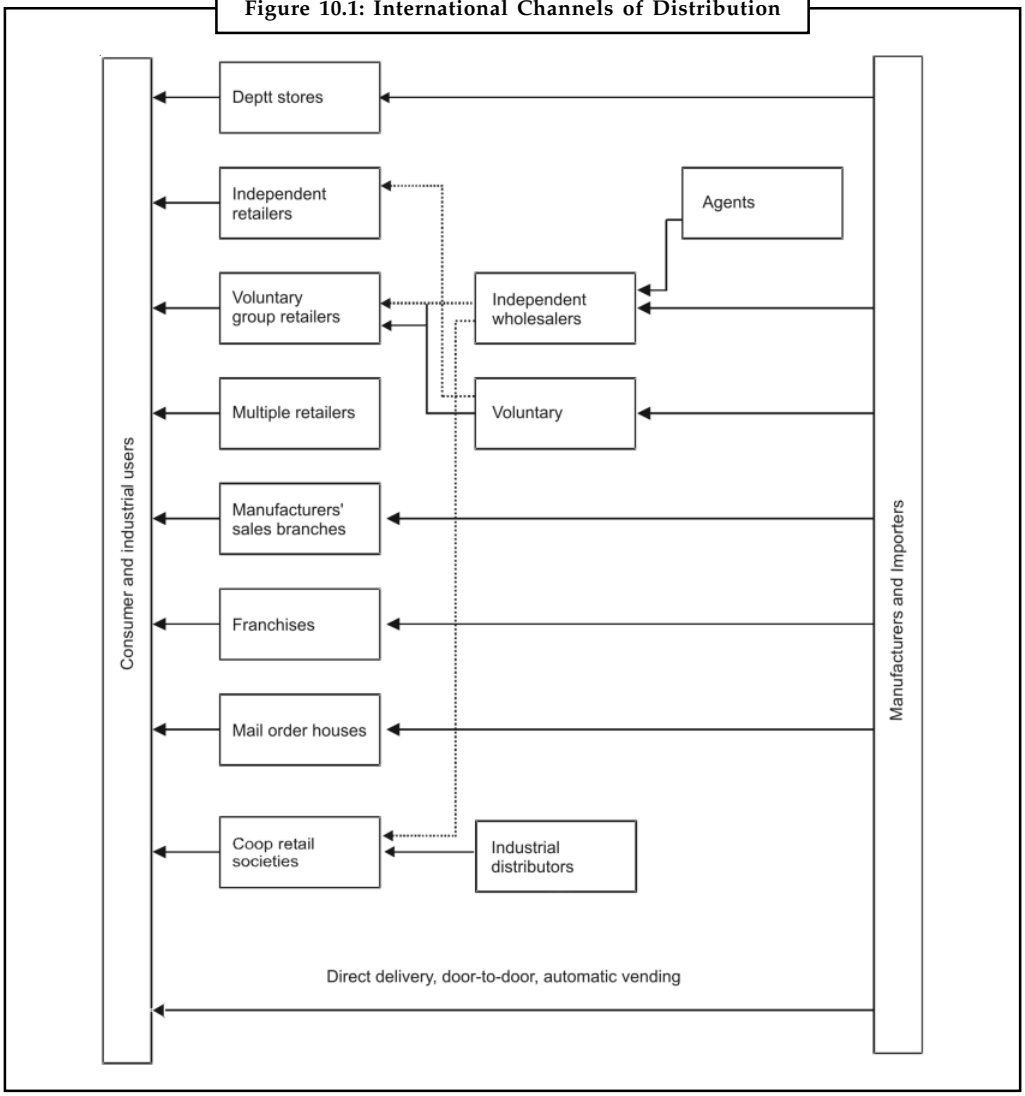
There are several advantages to be gained by employing an indirect domestic channel.

Example: The channel is simple and inexpensive. The manufacturer incurs no start up cost for the channel and is relieved of the responsibility of physically moving goods overseas. Because the intermediary very likely represents separate clients who can help share distribution costs, the costs on moving the goods are further reduced.

10.3.1 Types of intermediaries: direct channel

There are several types of intermediaries associated with the direct and indirect channels as shown in Figure 10.1. This figure compares two channels and lists the various types of domestic and foreign intermediaries.

Figure 10.1: International Channels of Distribution



Notes

1. ***Foreign Distributor:*** A foreign distributor is a foreign firm that has exclusive rights to carry out distribution for a manufacturer in a foreign country or specific area. Order must be channeled through the distributor even when the distributor chooses to appoint a sub-agent or sub-distributor. The distributor purchases merchandise from the manufacturer at a discount and then resells or distributes the merchandise to the retailers and sometimes-final consumers. In this regard, the distributor's function in many countries may be a combination of wholesaler and retailer. But in most cases the distributor is usually considered as an importer or foreign wholesaler. The length of association between the manufacturer and its foreign distributor is established by a contract that is renewable provided the continued arrangement is satisfactory to both.

   There are a number of benefits for using a foreign distributor. Unlike agents, the distributor is a merchant who buys and maintains merchandise in its own name. This arrangement simplifies the credit and payment activities for the manufacturer. To carry out the distributing function the foreign distributor is often required to warehouse adequate products, parts, and accessories. Apple Computer now does its own distribution in Japan because the services of Toray Industry, its foreign distributor, proved inadequate.

2. ***Foreign Retailer:*** If foreign retailers are used, the product in question must be a consumer product rather than an industrial product. There are many channels by which a manufacturer may contact foreign retailers and trust them in carrying product ranging from a personal visit by manufacturer's visit to mailings of catalogues, brochures and other literature to prospective retailers.

Notes For big items such as automobiles or high volume products it may be worthwhile for the manufacturer to sell to retailers without going through a foreign distributor.

3. ***State Controlled Trading Company:*** For some products particularly utility and telecommunication equipment a manufacturer must contact and sell to the state controlled companies.

   India has State Trading Corporation (STC) which deals with import and export of cars and other items which are in SIL. Most opportunities for manufacturers are limited to raw materials, agricultural machinery, and manufacturing equipment and technical instruments rather than consumer or household goods. Reason for all this may be the limitations in shortage of foreign exchange and an emphasis on self-sufficiency as in communist and socialist countries.

4. ***End User:*** Sometime a manufacturer is able to sell directly to foreign end users with no intermediaries involved in the process. This direct channel is a logical and natural choice for costly industrial products. For most consumer products the approach is practical for some products and in some countries. A significant problem with consumer purchasers can result from duty and clearance problems. A consumer may place an order without understanding his or her country's import regulations. When the merchandise arrives the consumer may not be able to claim it. As a result the product may be seized or returned on a freight collect basis.

10.3.2 Types of Intermediaries: Indirect Channel

A manufacturer may find it difficult, rather impractical, to sell directly to various foreign parties (foreign distributors, foreign retailers, state controlled trading companies and end users) for a majority of products. Other intermediaries have come between these foreign buyers and manufacturers.

Notes

1. ***Agents who look after the interests of manufacturers:*** Export Broker is to bring a buyer and seller together, for which he is paid the fee. The Broker may be assigned some or all foreign market seeking potential buyers. It negotiates the best terms for the seller (manufacturer) but cannot conclude the transaction without the approval of the principal. As a representative of the manufacturer the export broker may operate under its own name or that of the manufacturer. For any action performed the broker receives a fee/ commission. An export broker does not take the title of the goods. He is very useful because he has the extensive knowledge of the market, its supply, demand and foreign customers. He can, therefore, negotiate the most favourable terms for the manufacturer.

2. ***Manufacturer's export agent or sales representative:*** Manufacturer's export agent is not a manufacturer's employee. In fact, he is an independent businessperson who usually retains his/her identity by not using the manufacturer's name. Having more freedom than the manufacturer's own sales person, a sales representative can select when, where and how to work within the assigned territory. Working methods include presenting product literature and samples to potential buyers. An export agent pays his/her own expenses and may represent manufacturers of related and non-competing products. He can operate on either an exclusive or non-exclusive basis.

Did u know? Like a broker the manufacturers export agent works for commission.

Unlike the broker, the relationship with the manufacturer is continuous and more permanent. The contract is for a definite period of time and the contract is renewable by mutual agreement. The manufacturer, however, retains some control because the contract defines the territory, terms of sale, method of combination and so on.

3. ***Export Management Company:*** An Export Management Company (EMC) manages under contract the entire export programme of a manufacturer. An EMC is also known as a Combination Export Manager (CEM) because it may function as Export Department or several allied but non-competing manufacturers. In this regard, those export brokers and manufacturer's export agents who represent a combination of clients can also be called EMC. When compared with export brokers and manufacturer's export agents the EMC have greater freedom and considerable authority. EMC provide extensive service ranging from promotion to shipping arrangement and documentation.

4. ***Cooperative exporter:*** A cooperative exporter is a manufacturer with its own export organisation that is retained by other manufacturers to sell in some or all-foreign markets. In fact, this intermediary is also a manufacturer; however, it functions like any other export agent. The usual arrangement is to operate as an export distributor for other suppliers sometimes acting as a commission representative or broker. Because, the cooperative exporter arranges shipping it takes possession of goods but not the title.

5. ***Webb-Pomerene association:*** A Webb-Pomerene Association is formed when two or more firms usually in the same industry join together to market their products overseas. The association constitutes an organization jointly owned by competing U.S. manufacturers exclusively for the purpose of export. Basically a Webb-Pomerene Association is an export cartel. Although cartels are illegal in some of the countries like US, however, this kind of cartel is allowed to operate as long as it has no anti competitive impact on domestic marketing in the US market.

6. ***Purchasing/buying agent:*** An export agent represents a seller or manufacturer. The purchasing/buying agent represents the foreign buyer. By residing and conducting business in the exporter's country the purchasing agent is in a favourable position to seek a product that matches the foreign principal's preferences and requirements. Operating on

Notes

the overseas customers' behalf the purchasing agent acts in the interest of the buyer by seeking the best possible price. Therefore, the purchasing agent's client pays a fee or commission for the services rendered. The purchasing agent is also known as Commission Agent, Buyer for Export, Export Commission House and Export Buying Agent. This agent may also become an export confirming house when confirming payment and paying the seller after receiving invoice and the title document for the client.

7. ***Country controlled buying agent:*** Country Controlled Buying Agent is only a variation on the purchasing agent because this kind of agent performs exactly the same function as the purchasing/buying agent, the only distinction being that a country controlled buying agent is actually a foreign government's agency or quasi government firm. The country controlled buying agent is empowered to locate and purchase goods for its country. This agent may have a representative, who makes formal visit to the supplier country when the purchasing need arises.

8. ***Resident buyer:*** Resident Buyer is another variation on the purchasing agent. The resident agent as the name implies is an independent agent that is usually located near the highly centralised production industry. Although functioning like a regular purchase agent, the resident buyer is different because the principle on a continuous basis to maintain a search for new products that may be suitable retains it. The long-term relationship makes it possible for the resident buyer to be compensated with a retainer and commission for business transacted.

9. ***Export merchant:*** One kind of domestic merchant is the export merchant. An export merchant seeks out need in foreign markets and makes purchases from manufacturers in its own country to fill those needs. Usually the merchant handles staple goods, undifferentiated products or those in which brands are unimportant. After having the merchandised packed and marked to specifications, the export merchant resells the goods in his name through his contacts in the foreign markets. The merchant completes all the formalities and arrangements, assumes all risks associated with the ownership.

10. ***Export drop shipper:*** An export drop shipper also known as a desk jobber or cable merchant is a special kind of export merchant. As all these imply the mode of operation requires the drop shipper to request the manufacturer to "drop ship" a product directly to the overseas customers. It is neither practical nor desirable for the shipper to physically handle or possess the product. Based on this operational method the shipper's ownership of the goods may only last for a few hours.

    The export drop shipper places an order with a manufacturer directing the manufacturer to deliver the product directly to the foreign buyer on the receipt of order from overseas. The manufacturer collects payment from the drop shipper who in turn is paid by the foreign buyer.

11. ***Export distributor:*** This distributor is authorised and granted an exclusive marketing right to represent the manufacturer and to sell in some or all-foreign markets. It pays for goods in his domestic transaction with the manufacturer and handles all financial risks in the foreign trade.

    An export distributor differs from foreign distributor simply in location. The foreign distributor is located in a particular foreign country and is authorised to distribute and sell the product there.

12. ***Trading companies:*** The buyers and sellers in the foreign markets have no knowledge of each other or no knowledge of how to contact each other. Trading companies have come into existence to fill this void. In international marketing activities, for many countries this type of intermediaries may be the most dominant form in volume of business and in influence. Many trading companies are large and have branches wherever they do business.

Notes

Task Name a few companies that follow direct distribution channel and some that follow indirect distribution channel. Give a short presentation on distribution network of any one of the named companies.

Self Assessment

Fill in the blanks:

5. Manufacturer's export agents and export brokers representing a combination of clients can also be referred to as ……..
6. …….. exporter is sometimes also referred to as a 'piggy back exporter'.
7. An intermediary who directs the exporting company to deliver the goods directly to the foreign buyer, on receipt of order from oversees, is called ……..
8. Foreign retailers are generally used to distribute…….products.
9. Basically, …….Association is an export cartel.

10.4 Factors Involved in Distribution Systems

Distribution choices depend on several factors. One of them is the nature of the product. Is it perishable or fragile or a product that will require after sales service? Might an authorised company dealer better distribute it? Another consideration is the degree of control over distribution. Greater control over the distribution process requires greater involvement by a firm in terms of time, money and energy.

Another factor is cost. Whatever distribution mix a firm wishes to employ may be constrained by the availability of middlemen or channels of distribution, by political limitations imposed by the characteristics of the country or by infrastructural deficiencies in the country, which limit types, and methods of usable distribution modes.

The development level of a nation also affects the distribution resources and network. A lack of refrigerated methods of transportation will limit the marketing for frozen goods or fresh produce. Similarly, income levels might support the airfreight delivery of live lobsters in rich countries, while poorer countries rely on slow delivery by boat of less exotic foodstuffs.

Caution Distribution decisions can be even more complex in less developed countries where specific ethnic groups within the country dominate distribution channels.

Examples of ethno domination are the Chinese ethnic groups who control the wholesale trade of vanilla and cloves in Madagascar, rice distribution and milling in Vietnam, retail trade in Philippines and Kampuchea, and poultry and pineapple trade in Malaysia.

10.5 Value Chain Concept

Value chain analysis describes the activities that take place in a business and relates them to an analysis of the competitive strength of the business. Influential work by Michael Porter suggested that the activities of a business could be grouped under two headings:

1. ***Primary Activities***, those that are directly concerned with creating and delivering a product (e.g. component assembly); and

Notes

2. ***Support Activities***, which whilst they are not directly involved in production, may increase effectiveness or efficiency (e.g. human resource management). It is rare for a business to undertake all primary and support activities.

Value Chain Analysis is one way of identifying which activities are best undertaken by a business and which are best provided by others (out sourced).

10.5.1 Linking Value Chain Analysis to Competitive Advantage

What activities a business undertakes is directly linked to achieving competitive advantage.

Example: A business which wishes to outperform its competitors through differentiating itself through higher quality will have to perform its value chain activities better than the opposition. By contrast, a strategy based on seeking cost leadership will require a reduction in the costs associated with the value chain activities, or a reduction in the total amount of resources used.

Primary Activities

Primary value chain activities include:

Table 10.1: Primary Value Chain

Primary Activity	Description
Inbound logistics	All those activities concerned with receiving and storing externally sourced materials
Operations	The manufacture of products and services – the way in which resource **inputs**(e.g. materials) are converted to **outputs** (e.g. products)
Outbound logistics	All those activities associated with getting finished goods and services to buyers
Marketing and sales	Essentially an information activity – informing buyers and consumers about products and services (benefits, use, price, etc.)
Service	All those activities associated with maintaining product performance after the product has been sold

Support Activities

Support activities include:

Table 10.2: Support Activities

Secondary Activity	Description
Procurement	This concerns how resources are acquired for a business (e.g. sourcing and negotiating with materials suppliers)
Human Resource Management	Those activities concerned with recruiting, developing, motivating and rewarding the workforce of a business
Technology Development	Activities concerned with managing information processing and the development and protection of "knowledge" in a business
Infrastructure	Concerned with a wide range of support systems and functions such as finance, planning, quality control and general senior management

Steps in Value Chain Analysis

Notes

Value chain analysis can be broken down into a three sequential steps:

1. Break down a market/organisation into its key activities under each of the major headings in the model;
2. Assess the potential for adding value via cost advantage or differentiation, or identify current activities where a business appears to be at a competitive disadvantage;
3. Determine strategies built around focusing on activities where competitive advantage can be sustained

Self Assessment

Fill in the blanks:

10. More control over the distribution process requires more involvement by a firm in terms of ……., …… and ……
11. The situation where the specific ethnic groups control the distribution systems is called …….

10.6 Modes of Transportation

Whenever a new company is to be established, the transportation function is to be kept in mind before selecting the site of the company. To supply a product both between the countries and within a country there are fundamentally three modes of transportation: air, water (ocean and inland) and land (rail and truck).

The appropriate transportation mode depends on (i) market location, (ii) speed and (iii) cost.

A firm must first consider market location. Contiguous markets can be served by rail or truck as the case may be. To supply goods between continents sea or air transportation is needed.

Speed is another consideration to decide the mode of transport. When speed is essential, air transportation is preferred mode of distribution.

The cost is another factor to be considered in the selection of the transportation. Cost is directly related to speed – a quick delivery costs more.

The three different modes of transportation are discussed in the following sub-sections.

10.6.1 Land

Land transportation is the common mode of transport for any shipment whether local or international. Some type of land transport is essential in moving goods to and fro an airport or seaport. The land transportation involves rail or truck when the goods in large quantity are to be moved for a long distance over land. However, rail can prove to be more economical than the trucks. Europe and Japan have modern train systems that are capable of moving merchandise efficiently. Developing countries like India have yet to provide an efficient and fast rail transportation system to the business.

On the other hand, trucks are capable of going to more places. In addition, trucks may be needed to take cargo to and from the railway station. When countries have joined boundaries, moving cargo by truck or train is often a practical solution.

Notes

10.6.2 Air

Out of all the modes of transports the air accounts for only 1% of the total international freight movement. It is the fastest growing mode and is becoming less confined to expensive products. Air transport has the highest absolute rates but exporters have discovered that there are many advantages associated with this mode. First, air transport speed up delivery, minimizes the time the goods are in transit and achieves great flexibility in delivery schedules. Second, it delivers perishables in prime condition. In India, the perishable goods like cut flower, mushrooms and fruit are transported by air to carry out profitable export. Third, it can respond rapidly to unpredictable and urgent demand.

Example: Quick replacement of broken machinery, equipment, or a component part can be made by air.

Fourth, it reduces the minimum damage, packing and insurance costs. Finally it can help control costly inventory and other hidden costs, including warehousing, time in transit, inventory carrying cost, inventory losses and the paper work necessary to file claims for lost or damaged goods. These costs will increase as the time in transit increases.

10.6.3 Water

Bulk shipping is important in international trade because it is one of the most practical and important and efficient means of transporting petroleum, industrial raw materials, and agricultural commodities over long distances. About 51% of the global bulk fleet consists of oil tankers, while dry bulk carriers account for 43%. The remainder of the fleet is made up of combination carriers, which are capable of carrying either wet (crude oil and refined petroleum products) and dry (coal, iron, iron ore and grain) bulk cargo. The bulk shipping industry being highly fragmented as no one organisation, which has more than 2% of the total fleet.

There are basically three types of shipping companies: (a) An ocean freight conference line is an association of ocean carriers that have joined together to establish common rules with regard to freight charges and shipping conditions, (b) An independent line is a line that operates and quotes freight rates individually and independently without the use of a dual rate contract and (c) Finally, a tramp vessel is a ship not operating on a regular route or schedule. Tramp steamers do not have the established schedules of the other two types of carriers.

Task Name a company that uses all the three modes for distribution. Can you name the countries to which it distributes products through each mode?

Self Assessment

Fill in the blanks:

12. If the demand for the product is urgent and unpredictable, then ideally …….transport should be used.
13. A …… is a ship that does not operate on a regular route or schedule.

Notes

Case Study

The Case of Centralised Sales

Less than halfway through his presentation, Ashish Mullick knew that the man in the fourth row desperately wanted to speak to him. Not that there was anything in the demeanour of elegantly-balding manager in a well-cut grey suit that suggested it, but long years on the circuit had helped Mullick develop a sixth sense about people. That man seemed to him like a CEO waiting to unburden himself to the nearest management consultant.

He was right. The subject of his ruminations was, in fact, a CEO. His name was Vinod Saraf, and he was attending the Hyderabad Management Association's daylong workshop on strategic marketing with the specific aim of seeking the advice of Mullick, a professor of marketing at the JL Kellogg School of Business, and a consultant to several Fortune 500 companies.

But Saraf didn't get to meet Mullick till lunch; a waiting television crew soon whisked the marketing guru away for the customary sound-bytes after his presentation ended. His ulcers exacerbated by his organisational angst, Saraf was moodily pottering around the salad bar, when he heard a voice behind him. "I saw you trying to speak to me before I had to leave. I'm Ashish Mullick, but I guess you already know that…"

In a quite corner, away from the bustle of the pushy B-school types busy fattening their Rolodexes, Saraf unburdened himself to Mullick.

"I head Pluto Engineering…"

"I've heard the name. You make machine-tools, don't you?" interrupted Mullick.

"That's right. We've been in the light engineering business for the last 53 years. We are a widely held company, run by professional managers. Like most companies of our generation, we have a functional organisational structure. A general manager heads each of the four functions — manufacturing, marketing and sales, finance, and human resources development. We have regional sales managers looking after the four zones, reporting to Raj Chatterjee, my general Manager (sales & marketing), who is based in Mumbai. Over the years, Raj and his team of 200 salespeople have built a nationwide network of 1,600 dealers. None of them is exclusive to Pluto, but that is characteristic of the machine-tools market…"

"And this arrangement works for you?" questioned Mullick.

"It does," answered Saraf. "In the 1990s, when the machine-tools industry was sputtering along at 8 per cent per annum, we managed to grow by 11 per cent. Each of our 35 offerings has a market share of 12–15 per cent in its category in a fragmented market, which is dominated by the unorganised sector."

Mullick knew a happy ending when he heard one. The CEO of any company that had managed to outgrow the market in an industry whose fortunes were linked to the economy should, he reckoned, be giving tips to consultants – not seeking their advice.

"I don't see how I can help you, Mr Saraf," he said. "You seem to be going great guns."

"I know that, but we want to do better. Our industry is set to grow by 10 per cent per annum over the next 5 years, but we should grow faster. Last month, we decided to restructure our company into three independent profit centres — Power Tools, Industrial

Contd...

Notes

Belts and Hydraulic Hoses. As each of them reaches a threshold level of sales, it will be spun off as a Strategic Business Unit (SBU). Each profit centre will have a CEO: Raj Chatterjee will head Belts; Ashwin Kumar, Vice President (Manufacturing), will head Tools; and we hired a new hand for the hydraulics business. The CEOs have total control over manufacturing and marketing; only staff functions, like Finance and HR, will be looked after by the corporate centre."

"We've also decided to centralise sales. We don't know how, but one option could be the creation of a Central Sales Organisation (CSO) – a single entity that acts as the interface between the profit centres and our customers. The more we think of it, the more the CSO seems to be the solution to our problems. But is it? That is where I want your assistance."

"Fascinating", murmured Mullick, as he idly traced a pattern on his plate with a fork. "What would you like me to do?"

"I've called a meeting of Pluto's senior managers to discuss the advantages and the disadvantages of a CSO. I've also invited one of our biggest dealers. I'd like you to attend the meeting."

Mullick, impressed with the mild-mannered CEO who was prepared to change even when the going was good, agreed. Mission accomplished. Saraf left, promising to pick him up the next morning at 9 sharp.

The meeting was held in Pluto's modest boardroom in an unpretentious grey block in Secunderabad, which hosted both its corporate headquarters as well as its largest manufacturing facility. Everyone else had assembled by the time Mullick and Saraf walked in. Mullick recognised some of them from his earlier chat: Chatterjee was a portly man touching 50, and Kumar was a lean whippet-like individual of indeterminate age. Then there were Anil Marwah, Head (Finance), and Prabhakar Das, Head (HR), both assembly-line B-school offerings in their late 30s: clean-shaven, manicured, in white shirts and khakis. Sunil Agrawal, a 35-something second-generation entrepreneur, who was the managing partner of Agrawal Enterprises, Pluto's largest dealer in west India, completed the quorum.

Once everyone in the room had been acquainted with Mullick, Saraf started off by listing the changes he wished to make in Pluto's organisational structure, essentially a repeat of the previous afternoon's discussion with Mullick.

"What do you think, Dr Mullick?" he concluded.

"Profit-centres that will, eventually, become SBUs are a good idea. In fact, you may even want to embed staff functions, like Finance and HR, in each SBU. But I think a lot depends on how you manage your marketing-and-sales functions during the transition."

Sunil Agrawal burst out: "Will I have to deal with three salesmen now? After all, I stock Pluto's entire range…"

Chatterjee had anticipated this question, and was ready with an answer. "The decision that we have arrived at is to create a separate entity, responsible only for sales. We're tentatively calling this the Central Sales Organisation. Our entire sales-team will be transferred to the CSO, which will sell products produced by all the three profit centres. Marketing activities – like product-development, advertising and promotion, brand building and resource-allocation – will continue to be the responsibility of the CEOs of the profit centres. But the CSO will be headed by a CEO, who will be at par with them."

Agrawal wasn't convinced. "But why create a separate organisation for this purpose? While some of your products are end-user specific, none of them are dealer-specific. I do

Contd...

Notes

not understand why you have to create an elaborate organisation just to interact with us, your primary customers…"

"That's true," conceded Marwah, "but only to an extent. Dealer-sales account for 60 per cent of Pluto's turnover; the remaining 40 per cent is our sales to large accounts – companies whose purchase-volumes are high, and who prefer to deal directly with us. These accounts are handled directly by our salespeople. While our margins on dealer-sales are 8 per cent, the corresponding figure for sales to large accounts is 11 per cent…"

"And I think," continued Mullick, "that Pluto feels it has not exploited the large accounts segment, and is hoping that the CSO will change that. Isn't that right, Mr Saraf?"

"Absolutely," agreed Saraf. "We only have to look as far as our nearest rival, Bharat Engineering, to realise that. Seventy per cent of its turnover accrues from sales to large accounts. And, while this segment is growing at the rate of 25 per cent, our sales to dealers have grown at just 10 per cent per annum."

"Fair enough. Have you identified the CEO for the CSO? That choice will have some bearing on the eventual success of your change-initiative," pointed out Mullick. Saraf pointed to Prabhakar Das. "I have managed to convince Prabhakar that he is the man for the job. He raised two objections: the first revolved around his background as a HR professional, with no experience in either sales or marketing. The other was based on his understanding that the CSO would become redundant once the SBUs became operational. Those are the very reasons that drove my choice."

"As a HR specialist, Prabhakar can easily identify the skill-gaps in our salespeople, and quickly develop suitable training interventions to bridge them. As far as I am concerned, the primary objective of setting up a CSO is to develop selling competencies. Once that is done, it is only natural that the CSO will become redundant…"

"And that," concluded Marwah, "is a clear sign of success, not failure. In any case, selling skills are generic while marketing is product-specific."

Prabhakar was clearly the man in the hot seat. Having overcome his reluctance, he seemed to be looking forward to his new assignment. "We should ensure that our salespeople understand the business processes related to selling. We evaluate sales-people on the basis of their annual billings, but we should start considering process-oriented factors, like the time spent on calling on new customers, or the proportion of enquiries that lead to a sale, too…"

"That is just why we should move out of our functional structure," said Ashwin Kumar. "By ensuring the right focus, a CSO contributes to the process of building critical mass and developing competencies…"

"But this is exactly where you will run into a trade-off between costs and volumes," objected Agrawal. "I have seen this happen with one of your competitors, Indian Machine Tools, which used to be the market-leader in the power tools segment. Soon after it adopted the SBU structure in 1993, its costs spiraled out of control…"

Mullick chuckled. "No, I am not laughing at you," he told Agrawal. "Just before I came to India, I was approached by an American medical supplies-manufacturer, which wanted to create the same structure as you are planning. And one of their managers raised the same objection that you have just raised. Companies are the same everywhere."

"Anyway," he continued, "companies that willingly adopt change have to learn to look beyond the short-term implications. It is imperative that you understand which sales-

Contd...

Notes

related factors deliver shareholder value, and which do not. This sounds easy, but isn't. Volumes excite the typical salesperson; profits are incidental. Everyone in Pluto, from the CEO to the sales rep, needs to understand what drives profits."

"I am quite clear in my mind that we need to change," reiterated Saraf. "I believe there are four things that any CEO should consider in a situation like this. Does the new structure facilitate the development of competencies? Does it enhance our managerial abilities? Does it provide for the transfer of knowledge across business units? And does it leverage a company's resources optimally? I think our profit-centre-CSO structure stands these tests."

"I am in favour of a CSO," intoned Mullick, "I know of a few Indian companies, like BPL, that have managed to centralise sales successfully. BPL calls its entity the Central Marketing Organisation, and its activities aren't restricted to sales, but extend to marketing and brand-management too. There are also companies that have created centres of excellence by building divisions that manage all their activities. GM's Saturn division is, probably, the best-known example of this. There have been instances of multi-divisional or multi-product companies creating a CSO, only to realise that it doesn't work for them. Cadbury India is a case in point. The company had a short-fling with the CSO structure. But the reasons that dictate the effectiveness of the CSO seem to go beyond product or industry-characteristics. Nestle, which operates in the same markets as Cadbury, operates through a CSO. I think the real issue is implementation. And managing change effectively. Not that the CSO structure is perfect; there are several disadvantages associated with it. Personality clashes between the head of the CSO and the heads of the other profit-centres is one. I'm also not sure how your salespeople will react to this sudden change…"

Saraf stepped in quickly. "I don't believe there will be any such problems here. We have all worked together for more than a decade, and understand each other pretty well. I think our salespeople will welcome this move..."

Questions

1. Does Pluto really need to reconfigure its organisational structure if it wants to realise its long-term strategy? Can't these goals be achieved without doing so?
2. Are there any rollout problems that Saraf should be prepared for?
3. Is Saraf's view of the CSO as a transient entity justified? Should it actually be disbanded once the SBU structure matures? Will it create any reporting problems in the short run?
4. Has the company done the right thing in identifying a HR professional to head its CSO?
5. Can the CSO become a profit-centre by focusing on trading operations? Are there alternative organisational structures that Saraf could consider?

Source: P K Vasudeva, *International Marketing*, Excel Books.

10.7 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- Distribution is the course that goods take between production and the final consumer.
- This course often differs on a country by country basis and MNCs will spend a considerable amount of time in examining the different systems that are in place, the criteria to choose distributors and channels and how distribution segment will be employed.

Notes

- When the Companies have to market abroad they use two principal distribution channels: direct selling and indirect selling.
- Direct selling is employed when a manufacturer develops an overseas channel. Indirect selling also known as the local or domestic channel is employed when a manufacturer in a country markets its product through another firm that acts as the manufacturer's sales intermediary (middleman).
- Distribution choices depend on several factors like nature of the product, cost and development level of the nation.
- To move a product both between the countries and within a country there are fundamentally three modes of transportation: air, water (ocean and inland) and land (rail and truck).
- Packaging has assumed an important function for the preservation of the goods as well as for the reduction of cost of the products. An increasingly popular method of shipment is containerization.
- A container is a large box made of durable material such as steel, aluminium, plywood, and glass reinforced plastics.

10.8 Keywords

Containerization: A shipping method in which a large amount of material (as merchandise) is packaged into large standardized boxes.

Export Management Companies: They manage the entire export programme of a manufacturer under contract.

Export Merchants: They seek out need in foreign markets and makes purchases from manufacturers in its own country to fill those needs.

Intermediaries: Acting as a mediator or an agent between persons or things.

Logistics: It refers to the management of business operations, such as the acquisition, storage, transportation and delivery of goods along the supply chain.

Value Chain Analysis: This analysis describes the activities that take place in a business and relates them to an analysis of the competitive strength of the business.

10.9 Review Questions

1. Discuss the components of a logistics system.
2. "Distribution decisions are critical decisions". Substantiate.
3. Compare direct and indirect selling channels. Discuss the types of direct and indirect intermediaries in brief.
4. What factors influence the choice of distribution channels and mode of transportation?
5. What are the basic problems in international packaging? How has "containerization" reduced those problems?

Answers: Self Assessment

1.	False	2.	True
3.	True	4.	True

Notes

5. Export Management Company
6. Cooperative
7. Export Drop Shipper
8. Consumer
9. Webb-Pomerene
10. Time, money, energy
11. Ethno-domination
12. Air
13. Tamp vessel

10.10 Further Readings

Books

Cateora and Graham, *International Marketing*, McGraw Hill, 2007

Charles W.L. Hill, *International Business Competing in the Global Marketplace*, 4th Edition, Tata McGraw-Hill Publishing Company Limited

Chase Richard, Jacob Robert, Aquillano and Agarwal Nitin, *Operations Management*, 11th Edition, Tata McGraw-Hill Publishing Company Limited

Justin Paul, *International Business*, 3rd Edition, Prentice Hall of India

Vasudeva, PK, *International Marketing*, Excel Books, New Delhi, 2010

Online links

http://blog.gcase.org/2011/02/14/what-is-the-value-chain-concept/

http://www.dfid.gov.uk/r4d/PDF/Outputs/HPAI/WKS081124_Annex16.pdf

http://www.quickmba.com/strategy/value-chain/

http://www.tutor2u.net/business/strategy/value_chain_analysis.htm

Notes

Unit 11: Communication Decision for International Markets

CONTENTS

Objectives

Introduction

11.1 Communication in Marketing

11.1.1 Steps in Developing an Effective Communication

11.1.2 Integrated Marketing Communication

11.2 Global Communication Strategy

11.3 Factors Influencing Communication Decisions

11.3.1 Advertising

11.3.2 Public Relations

11.3.3 Personal Selling

11.3.4 Sales Promotion

11.4 Summary

11.5 Keywords

11.6 Review Questions

11.7 Further Readings

Objectives

After studying this unit, you will be able to:

- Explain the process of communication
- Discuss the benefits of a global communication strategy
- Discuss Integrated marketing communication
- Discuss the various communication tools

Introduction

It is essential for organizations to promote their brands well among their customers, not only to outperform their competitors but also to survive in the long run. The primary purpose of marketing communication is to tell customers about the benefits and values that a company's product or service offers to them. Brand promotion increases awareness about products and services and ultimately increases their sales, leading to high profits and revenue for the organization. Global communication; and branding and advertising can help you market your product or service in many different countries around the world.

Notes

11.1 Communication in Marketing

Communication can be defined as transmitting, receiving, and processing information. When a person, group, or organization attempts to transfer an idea or message and the receiver is able to comprehend the information, communication takes place.

Brand communication is undertaken by organizations to create popularity for their product among the end-users. Brand communication goes a long way in promoting products and services among target consumers. The process involves identifying target consumers and promoting the brand among them through means of Advertising, Sales Promotion, Public Relation, Direct Marketing, Personal Selling, Social media, etc.

11.1.1 Steps in Developing an Effective Communication

The important steps in developing an effective communication are the following:

1. ***Identifying the target Audience:*** The target audience may be different in different countries for the same product.

Example: Certain consumer durables which are used even by the high income as well as low income groups in advanced countries may be used only by high income groups in developing countries.

In several cases the need to be fulfilled and satisfied by the product varies between markets. For example, a bicycle is a basic means of transportation in a country like India. The important category of consumers for the same is small farmers, blue-collar workers and students. In some advanced countries, bicycles are used for sporting and exercising, hence the target audience is different. Also, the decision-making roles of different categories of people are not the same in all markets. All this indicates that the target audience may not be the same in all markets.

2. ***Determining Communication Objectives:*** The communication objectives may be different in different cases.

Example: When the product is in the introduction stage in a market the emphasis of communication could be on consumer education and creation of primary demand. In a market where the product is at other stages of the life cycle, the communication objectives would be different.

If there is a new competition in a market, countering that competition could be a major objective of advertising in that market at that point of time.

3. ***Determining the message:*** Formulating a message requires solving four problems: what to say (message content), how to say it logically (message structure), how to say it symbolically (message format), and who should say it (message source).

The decisions regarding the message content, message structure, message format and message source are influenced by certain environmental factors such as cultural factors and legal factors. The differences in the environmental factors among the countries may call for different messages as deemed appropriate for each market.

4. ***Budget Decisions:*** The total promotional expenditure and apportionment of this amount to different elements of the promotion mix are very important and difficult decisions.

Notes

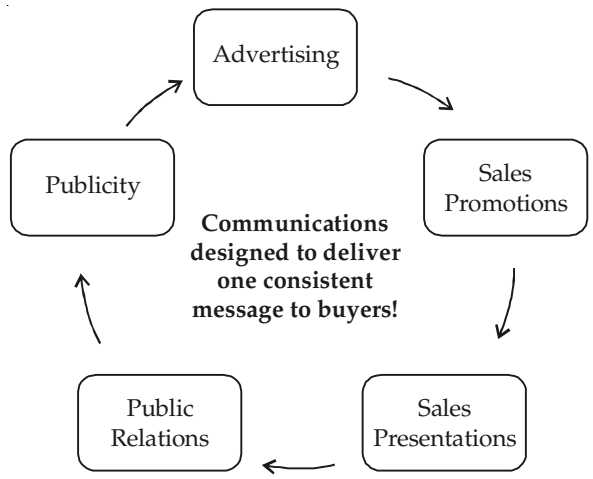
11.1.2 Integrated Marketing Communication

It refers to integrating all the methods of brand promotion to promote a particular product or service among target customers. In integrated marketing communication, all the dimensions of marketing communication work together for increased sales and maximum cost effectiveness. It is an approach to achieving the objectives of a marketing campaign, through the coordinated use of different promotional methods that re-enforce each other.

As defined by the American Association of Advertising Agencies, Integrated Marketing communications "recognizes the value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines advertising, public relations, personal selling, and sales promotion and combines them to provide clarity, consistency, and maximum communication impact."

It is a management concept that is designed to unify all the aspects of Marketing communication such as Advertising, Sales Promotion, Public Relation, Direct Marketing, Personal Selling and make them work together towards a common goal, rather than letting each work in isolation. IMC is a cross functional approach concerned with developing relationships with customers and other stakeholders.

Figure 11.1: Steps of Integrated Marketing Communication



Source: http://drillbitmarketing.com/wp-content/uploads/2011/11/IMC.pdf

Notes There are three elements in any IMC strategy: the consumer, the channels through which the message is communicated, and the evaluation of the results of the communication.

Components of IMC

- ***The Foundation:*** It involves detailed analysis of both the product and the target market. It is essential for marketers to understand the brand, its offerings and end-users. They need to be aware of the needs, attitudes and expectations of the target customers as well as keep a close watch on competitor's activities.
- ***The Corporate Culture:*** The features of products and services have to be in line with the work culture of the organization. Every organization has a vision and the marketers to keep that in mind before designing products and services.

Notes

Example: Organization A's vision is to promote green and clean world. Naturally its products need to be eco-friendly and biodegradable, in lines with the vision of the organization.

- ***Brand Focus:*** Brand Focus represents the corporate identity of the brand.
- ***Consumer Experience:*** Marketers need to focus on consumer experience, i.e. what the customers feel about the product. A consumer is likely to choose a product which has good packaging and looks attractive. Products need to meet and exceed customer expectations.
- ***Communication Tools:*** Communication tools include various modes of promotion of a particular brand; such as advertising, direct selling, promoting through social media such as facebook, twitter, etc.
- ***Promotional Tools:*** Brands are promoted through various promotional tools such as trade promotions, personal selling and so on. Organizations need to strengthen their relationship with customers and external clients.
- ***Integration Tools:*** Organizations need to keep a regular track on customer feedbacks and reviews. They need to have specific software like customer relationship management (CRM) which helps in measuring the effectiveness of various integrated marketing communications tools.

Task Explain the process of Communication with the help of an illustration.

Self Assessment

Fill in the blanks:

1. ..... integrating all the methods of brand promotion to promote a particular product.
2. The process of ..... involves identifying target consumers and promoting the brand among them through means of Advertising, Sales Promotion, Public Relation, Direct Marketing, Personal Selling, Social Media, etc.
3. ..... can be defined as transmitting, receiving, and processing information.
4. The three elements in any IMC strategy are the ....., the channels through which the message is communicated, and the evaluation of the results of the communication.

11.2 Global Communication Strategy

A Global Communication strategy is extremely beneficial for a firm. It can help market the product or service in many different countries around the world. Global communication has historically required large budgets. However, emerging communication techniques like social media can make global communication campaigns affordable for companies of all sizes.

The major benefits of a Global Communication Strategy are:

- ***Consistency:*** Creating a global communication program enables a firm to communicate a consistent message to customers in all its export markets. Consumers receive marketing messages from a number of different sources, so delivering a consistent message is the most effective way to reach consumers.

Notes

- ***Reduced Risk:*** The risk in developing a global campaign can be reduced by building a communication strategy that is successful in delivering results in your domestic market. Building an existing brand progressively, market by market, is the safest and most cost-effective way to create a global brand.
- ***Localization:*** A firm's global communication program does not necessarily have to communicate the same message exactly in every local market. It's important to understand and respect the language, cultural and business differences in individual territories. The firm should adapt its communication strategy keeping in mind the local preferences, in terms of the language, cultural and business differences. This process is called localisation.
- ***Leadership:*** A firm can build on the benefits of a global brand using Brand Leadership. This involves defining the important elements of its brand, but using a flexible approach and customizing the communication for local markets. To ensure the brand's success, the firm needs to monitor the success of the communication campaign in each market with the aim of establishing brand leadership across all key territories.
- ***Management of Campaigns:*** Running a consistent communication program reduces the cost and complexity of managing campaigns for a firm. Some multinational companies employ communication agencies for each territory. If each agency creates a different campaign for the local market, costs can rise rapidly because of the duplication of effort. By developing a single global communication strategy, the firm can reduce the number of agencies it uses, and eliminate duplicate costs.
- ***Media Planning:*** The changing pattern of media has made it easier to develop affordable global campaigns. Global communication campaigns of the early 2000s relied heavily on mainstream television and press advertising. Because of the emergence of social media and the importance of Web search, a firm can now focus on placing its messages in the media that consumers prefer. When consumers in different countries search the Web, they will receive the same consistent branding message from the firm's website irrespective of where they are located.

Self Assessment

State whether the following statements are true or false:

5. Global communication has historically required large budgets.
6. To ensure the brand's success, the firm needs to monitor the success of the communication campaign
7. The process of adapting the communication strategy keeping in mind the local preferences, in terms of the language, cultural and business differences .is called Globalization.

Caselet

Healthy Choice: Pairing a Social Coupon with Blogger Outreach

Healthy Choice was looking to grow its Facebook fan base, increase engagement and reinforce the brand's reputation for value. Knowing that the Healthy Choice consumer is a user of social media and interested in coupons, the brand introduced a progressive coupon on the Healthy Choice Facebook Page. The coupon began at a low value ($0.75 off) and increased as people "liked" the page and signed up for the coupon, ultimately reaching a "buy-one-get-one-free" deal.

Contd...

Notes

The progressive coupon was supported through a variety of public relations tactics. The team conducted extensive outreach to coupon bloggers and individuals with whom the brand has built a relationship, purchased a Facebook ad and utilized the brand's e-mail database to spread the word and encourage consumers to "like" the page and sign up for a coupon.

In just two weeks, the Healthy Choice Facebook page grew from 6,800 to nearly 60,000 fans, and the team distributed more than 50,000 buy-one-get-one-free coupons. The progressive coupon campaign also generated significant trade coverage, including an article in Brand week.

Source: http://mashable.com/2011/03/08/social-pr-campaigns/

11.3 Factors Influencing Communication Decisions

Different countries interact in business-related activities on an everyday basis. There are different economic, social and cultural differences among them. These differences prove to be obstacles in business communication. Knowledge of such factors eliminates the common mistakes and misunderstandings involved with business communication between different cultures. There are various factors which influence business communication decisions in international markets. These are explained below.

11.3.1 Advertising

According to American Marketing Association, Advertising is "Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor." It is a means by which a firm communicates with potential customers, highlighting its product.

Caution Global advertising is the use of the advertising appeals, messages, art, copy, photographs, stories, and video segments in multiple country markets.

A global company that has the ability to successfully transform a domestic campaign into a worldwide one or to create a new global campaign from scratch is at an advantage relative to competitors who make the same discovery at a later point in time.

Global campaigns with unified themes can help to build long-term product and brand identities and offer significant savings by reducing costs involved in producing advertisements. Global advertising also offers companies economies of scale in advertising as well as improved access to distribution channels. Where shelf space is at a premium, a company has to convince retailers to carry its products rather than those of competitors.

Example: In the case of food products

There are two major decisions that a firm has to address:

- The major question faced by firms is if the specific advertising message and media strategy needs to be changed from country to country. Local country managers can share important information, such as when to use caution in advertising creativity.

  Given below is an idea of how ads need to be formed, keeping in mind the regional thought process and culture:

Notes

Table 11.1: An Idea of How Ads need to be formed

Type of Appeal	Cultural/Market Factors	Countries Where Appeal Is Appropriate
Rational/argument	Monochronic cultures with low power distance; high uncertainty avoidance; good supply of marketing professionals	Austria, Belgium, Germany, Italy, United States
Rational/lecture	Collectivist cultures with high power distance and high uncertainty avoidance	Belgium, Italy, Mexico
Emotional/psychological	Collectivist cultures with high power distance; high advertising expenditures; strict government control	Hong Kong, Taiwan, France, United States, South Korea, Spain
Emotional/dramatic	High power distance; high advertising expenditures; limited supply of advertising professionals	Hong Kong, France, Japan

Source: http://prezi.com/6rt7o4tyapqw/global-marketing-communications-decisions-advertising-and-public-relations/

These differences can be used as a guide in creating standardized appeals in terms of clusters. For example, a standardized ad employing a rational appeal could be translated as appropriate in Austria, Belgium, Italy, and the United States.

Example: Some Examples of Cultural considerations are:

1. Images of Male/female intimacy are in bad taste in Japan, and illegal in Saudi Arabia
2. In Germany, France and Japan, a man enters a door before a woman.

Did u know? Many German companies prefer ads that present a rational argument for a product's superiority. This is typical of ads for beer, automobiles, and food products.

- Another issue faced by advertisers is which medium to use when communicating with the target audience. The available alternative media can be broadly categorised as:

  1. *Print media:* daily and weekly newspapers to magazines and business publications with national, regional, or international audiences
  2. *Electronic media:* broadcast television, cable television, radio, and the Internet
  3. *Other media:* outdoor, transit, and direct mail advertising

  Globally, media decisions must take into account country specific regulations.

  Even when media availability is high, its use as an advertising vehicle could be limited.

Example: In Europe, television advertising either does not exist or is extremely limited in Denmark, Sweden and Norway. The time allowed for advertising each day varies from 12 minutes in Finland to 80 in Italy, with 12 minutes per hour per channel allowed in France and 20 in Switzerland, Germany, and Austria.

Notes

11.3.2 Public Relations

Public Relations (PR) is the department or function responsible for evaluating public opinion about, and attitudes toward, the organization and its products and brands. Public relations personnel also are responsible for fostering goodwill, understanding, and acceptance among a company's various constituents and publics. According to Marla Aaron, "Public Relations is communicating your organization's messages at the right time and in the right place to the right audience. With the proliferation of tools and technologies, we can measure the value of those efforts and how they align with a business' overall mission."

Like advertising, public relations is one of the four variables in the promotion mix. One of the tasks of the PR practitioner is to generate favorable publicity. By definition, publicity is communication about a company or product for which the company does not pay. The Tools that are generally used under Public Relations can be News releases, Media kits, Press conferences

Public relations professionals who are responsible for international business operations should serve as more than a company mouthpiece. They should be able to simultaneously build consensus and understanding, create trust and harmony, articulate and influence public opinion, anticipate conflicts, and resolve disputes. As companies become more involved in global marketing and the globalization of industries continues, company management must recognize the value of international public relations.

Public relations practices can be affected by:

- Cultural traditions
- Social and political contexts
- Economic environment

Notes Public Relations expenditures are growing at an average of 20% per year. In India they are reported to be growing by 200% annually.

Reasons for this growth are:

- Increased governmental relations between countries
- Technological development
- Societal issues like the environment

Public relations professionals must understand these differences and tailor the message to be communicated, appropriately.

Task Pick an international case study from a major international PR firm and write a profile of how the firm localized the campaign to fit the country and culture of the product or service tactics.

11.3.3 Personal Selling

In today's world, one of the fastest ways to convince a person to do something is by communicating with that person. International markets are swarming with firms and their products and services marked by complex technologies and multiple choices, and in cut-throat

Notes

competition. The role of salesperson becomes quite important as he/she acts as representative of the firm with whom potential customers with directly interact with. The customer always wants to be sure that he or she is getting value for his or her money. The salesperson helps in winning the trust of customer in the firm by making a potential customer an actual one, hence giving the firm some competitive advantage.

Personal selling is personal communication between a firm representative and a potential customer to persuade prospective customer to buy something their product or service idea. This is in contrast to the mass, impersonal communication of advertising, sales promotion and other promotional tools.

Example: One of the most important factors which contributed to the sales success of Amway Products in India was the door-to-door sales.

The efforts of sales people have a direct impact on such diverse activities as:

- Increase awareness of new products and business ventures.
- Keeping existing products running well in market.
- Provide convenience to customers as products are sold directly at homes.
- Creating a relationship and trust through interpersonal approach.
- Generating actual sales for the firms.
- Direct Feedback from customers.
- Supplement with the product promotion.
- Provides an effective method in explaining firm's reliability and reputation, product features, clarifying customer doubts and resolving their issues.

One of the major limitations is its high cost, especially in advanced countries.

Decisions taken in personal Selling:

- ***Size of personal selling effort:*** This is determined by importance of the firm's new product or service and how much is firm is invest in money, time and in other resources
- ***Allocation of Sales Effort:*** This involves Geographical Allocation, i.e. the area which a given sales person needs to cover or the geographical position assigned to each sales person here he or she has to generate sales for the firm

  Allocation of product to sales personnel: A firm might be having a number of products and services to sell. A salesperson can't sell all the products or services due to his or her physical limitations. Hence the firm needs to focus on what products are needed to be sold by the salesperson. This is done as per demands of the products or services or when a new product is launched.
- ***Scheduling:*** Time is a valuable resource, hence, the firm needs to make crucial decisions scheduling of the personal selling effort.
- ***Cost Involved:*** Budget for personal selling determines the size of personal selling effort and is generally on higher side as it is quite labour intensive.

11.3.4 Sales Promotion

Sales promotion refers to any paid consumer or trade communication program of limited period that adds substantial value to a product or brand. Sales promotion is a vital element of

Notes

marketing communication policy which accounts for more promotional expenditures than advertising, personal selling and publicity in some countries.

- ***Consumer sales promotions*** are intended to make consumers aware of a new product, to encourage nonusers to sample an existing product, or to boost overall consumer demand.

Example: Coupons, rebates, Loyalty programs, free sampling, etc.

- ***Trade sales promotions*** are designed to raise product availability in distribution channels. For example, point of purchase displays, trade shows, etc.
- ***Business to business Sales promotion*** is targeted at the B2B market. For example, Price reductions, trade ins, trade shows, etc.

Objectives of Sales Promotion:

- Building product awareness-Sales promotion is highly effective in exposing customers to products for the first time. The serve as key promotional components in the early stage of product introduction.
- Creating interest-Sales promotion is integral and effective in creating interest among customers.
- Provide information- some sales promotion techniques provide information to customers.
- Stimulating demand- Sales promotion builds demand by convincing customers to make a purchase.
- Reinforcing a Brand-After purchase, Sales promotion can be used to encourage additional purchase and also as a reward for purchase loyalty in the form of special promotions.

Benefits of Sales Promotion are as follows:

- Provides a real incentive to buyers
- Reduces the perceived risk associated with purchasing a product
- Provides accountability for communications activity
- Provides methods of collecting additional data for database

Self Assessment

Fill in the blanks:

8. Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor is called .....
9. ..... Advertising is the use of the advertising appeals, messages, art, copy, photographs, stories, and video segments in multiple country markets.
10. The available alternative media for advertising can be broadly categorized as print media, ... media and other media.
11. ..... is communicating your organization's messages at the right time and in the right place to the right audience.
12. One of the tasks of the PR practitioner is to generate favorable .....
13. One major limitation of Personal selling is its ....., especially in advanced countries.

Notes

14. The three major types of Sales promotion are ....., Trade sales promotion, and business to business sales promotion.

15. ..... is personal communication between a firm representative and a potential customer to persuade prospective customer to buy something their product or service idea.

Case Study

Ethical Use of Interns

As director of public relations for a major pharmaceutical company, you are under increasing pressure to show measurable results with a limited budget. The CEO asks you to develop an effective campaign to engage public support for the company's application to the Federal Drug Administration for approval of a new drug research shows to be highly effective at controlling asthma for children and to have no known side effects.

As one of your key tactics, you plan a series of community meetings for parents. Your CEO is pleased with the tactic. You have an unpaid intern, working for class credit and public relations experience that has completed course work and is looking for a job in a tight market. He wants public relations experience that will benefit his job search but you have not yet given him meaningful tasks that will help him build his skills. He has been answering the phone and filing while you have been out of the office in meetings for hours at a time. You don't have the budget to hire a mailing service or temp to get the invitations out, track RSVPs or check-in guests at the informational meetings. You want to assign the job to the intern. Should you do this?

Questions

1. Identify the ethical issues and/or conflicts.
2. Determine internal/external factors likely to influence your decision.
3. Choose key values that apply.
4. Consider parties who will be affected by your decision.

Source: http://www.prsa.org/AboutPRSA/Ethics/Resources/CaseStudies/EducatorCaseStudy4.pdf

11.4 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- Communication can be defined as transmitting, receiving, and processing information. When a person, group, or organization attempts to transfer an idea or message and the receiver is able to comprehend the information, communication takes place.
- Brand Communication is the process involves identifying target consumers and promoting the brand among them through means of Advertising, Sales Promotion, Public Relation, Direct Marketing, Personal Selling, Social media, etc.
- According to the American Association of Advertising Agencies, Integrated Marketing communications" recognizes the value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines advertising, public relations, personal selling, and sales promotion and combines them to provide clarity, consistency, and maximum communication impact."

Notes

- There are three elements in any IMC strategy: the consumer, the channels through which the message is communicated, and the evaluation of the results of the communication.
- The major benefits of a Global Communication Strategy are consistency, reduced risk, localization, leadership, management of campaigns and media planning.
- According to American Marketing Association, Advertising is "Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor." Global advertising is the use of the advertising appeals, messages, art, copy, photographs, stories, and video segments in multiple country markets.
- Public relations (PR) is the department or function responsible for evaluating public opinion about, and attitudes toward, the organization and its products and brands. Public relations personnel also are responsible for fostering goodwill, understanding, and acceptance among a company's various constituents and publics.
- Public relations practices can be affected by Cultural traditions, Social and political contexts and Economic environment.
- The role of salesperson becomes quite important as he/she acts as representative of the firm with whom potential customers with directly interact with. The customer always wants to be sure that he or she is getting value for his or her money. The salesperson helps in winning the trust of customer in the firm by making a potential customer an actual one, hence giving the firm some competitive advantage.
- Sales promotion refers to any paid consumer or trade communication program of limited period that adds substantial value to a product or brand. The three major types of Sales promotion are Consumer sales promotion, Trade sales promotion, and business to business sales promotion.

11.5 Keywords

Advertising: It is any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.

Brand Communication: Brand Communication is the process involving identifying target consumers and promoting the brand among them through means of Advertising, Sales Promotion, Public Relation, Direct Marketing, Personal Selling, Social media, etc.

Communication: It can be defined as transmitting, receiving, and processing information.

Global Advertising: It is the use of the advertising appeals, messages, art, copy, photographs, stories, and video segments in multiple country markets.

Integrated Marketing communications: It "recognizes the value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines advertising, public relations, personal selling, and sales promotion and combines them to provide clarity, consistency, and maximum communication impact."

Personal Selling: It is personal communication between a firm representative and a potential customer to persuade prospective customer to buy something their product or service idea.

Public Relations: It is communicating your organization's messages at the right time and in the right place to the right audience.

Sales Promotion: It refers to any paid consumer or trade communication program of limited period that adds substantial value to a product or brand.

Notes

11.6 Review Questions

1. How is international marketing different from domestic marketing?
2. Explain the process of Communication.
3. Define Integrated Marketing Communication. What are its components?
4. What are the steps involved in developing an effective communication?
5. What are the major benefits of an effective global communication strategy?
6. Explain the tools used in Integrated marketing communication in brief.
7. What are the major decisions that the firm has take for an advertising strategy in the global market?
8. Define Public Relations. Why has the role of public relations grown in recent years?
9. What is Personal selling? What are the major decisions that have to be taken by the manager before forming a personal selling strategy?
10. Define Sales promotion. What are the different types of Sales Promotion?

Answers: Self Assessment

1.	Integrated Marketing Communication	2.	Brand Communication
3.	Communication	4.	Consumer
5.	True	6.	True
7.	False	8.	Advertising
9.	Global	10.	Electronic
11.	Public Relations	12.	Publicity
13.	High cost	14.	Consumer Sales Promotion
15.	Personal selling		

11.7 Further Readings

Books

Cateora and Graham, *International Marketing*, McGraw Hill, 2007

Charles W.L. Hill, *International Business Competing in the Global Marketplace*, 4th Edition, Tata McGraw-Hill Publishing Company Limited.

Chase Richard, Jacob Robert, Aquillano and Agarwal Nitin, *Operations Management*, 11th Edition, Tata McGraw-Hill Publishing Company Limited.

Justin Paul, *International Business*, 3rd Edition, Prentice Hall of India

Vasudeva, PK, *International Marketing*, Excel Books, New Delhi, 2010

Notes

Online links

http://prezi.com/6rt7o4tyapqw/global-marketing-communications-decisions-advertising-and-public-relations/

http://www.businessdictionary.com/definition/integrated-marketing-communications-IMC.html

http://www.citeman.com/2638-major-decisions-in-international-marketing-communication.html

http://www.docstoc.com/docs/25967946/SALES-PROMOTION

Unit 12: Export Procedures and Policies

Notes

CONTENTS

Objectives

Introduction

12.1 Procedure of Export

12.2 Example of Export Procedure

12.2.1 Enquiry

12.2.2 Quotation

12.2.3 Order Receipt and Acceptance

12.2.4 Finance, Production and Packing

12.2.5 Excise Clearance

12.2.6 Export Documents

12.2.7 Cargo Insurance and Shipping Space Reservation

12.2.8 Customs Clearance

12.2.9 Receipt of Shipment Documents from C&F Agent

12.2.10 Shipment Advice to Buyer

12.2.11 Presentation of Shipment Documents to the Negotiating Bank

12.2.12 Presentation of Documents for Payment to Foreign Bank by the Negotiating Bank

12.2.13 Export Incentives

12.2.14 Functions

12.3 Summary

12.4 Keywords

12.5 Review Questions

12.6 Further Readings

Objectives

After studying this unit, you will be able to:

- Explain the procedure of export
- Discuss the example of export procedure

Introduction

Unlike domestic business, an exporter is dealing with a larger number and more challenging uncertainties. However, even when he has received the order, his life doesn't become easy as the path between receipt of an export order and its successful execution is full of hurdles. Please do not be alarmed. The idea is not to make anyone nervous here. The point of emphasis here is that

Notes

an exporter has to follow certain procedural routines while executing an export shipment and therefore and he must be fully aware of the drill.

12.1 Procedure of Export

To Export means to sell in another country. This involves complex procedures, including filing and exchange of documents, both in the country of Export (from where items are to be shipped/dispatched) and in the country of Import (where these items are to be discharged/delivered). The requirement of documentation arises due to the fact that the items that are exported are to be sold to someone who is thousands of miles away, speaking a different language, having different customs, preferences, currency and import regulations. In order to facilitate trade with other countries, certain sets of rules have been developed by the trading nations over the centuries, which are normally followed in foreign trade today. The International Trade is governed by rules made by the World Trade Organization (WTO).

There are six steps in Export Procedure, these are following.

1. ***Evaluate Your Export Potential:*** First analyze your company's possible competitive advantages abroad and then decide if you have the financial resources to support exporting.
   - *Analyze the pros and cons of market expansion:* Identify success factors within your domestic market and determine if the same factors, such as price or brand image, can be replicated in foreign markets. Explore expansion possibilities in the domestic market, whether or not to expand at all, or innovating new products for the domestic market.
   - *Research your competitive advantages abroad:* Compare the product or service advantages and disadvantages with those of likely competitors. Some questions you should ask yourself in determining these advantages and disadvantages include: Can we sell the product abroad without changing its form or the manner in which it is marketed? Can we sell the same product but for a different use? Will we have to change product to make it export worthy? Should we develop a new product for targeted foreign markets?
   - *Determine your financial resources:* Once competitive advantages and the pros and cons of market expansion are determined, determine financial resources to support exporting.
2. ***Country/Market Research:*** Countries must be evaluated for their receptiveness to trade and investment.
   - *Evaluate the Demographic/Physical Environment:* Look at population size, growth, and density, urban and rural distribution, climate and weather variations, transportation and communication networks, and the use of electricity. A country with a growing population may be a suitable indicator, but you must also look at the ability of the population to purchase imports. If the population's ability is widely dispersed, reaching consumers will be difficult. On the other hand, if the population is crowded into cities, reaching it will be easy; however, the costs of warehouse space in congested areas may be high.
   - *Assess the Social/Cultural Environment:* Research the literacy rate and education, health of a population, existence of a middle class, language issues, and cultural issues.

Example: If people cannot read labels, then imported goods may have to rely on logos and symbols to create brand recognition and communication with customers.

Notes

- *Analyze the Political Environment:* Governments may be hostile to foreigners, foreign goods, and foreign services. Understand the stability of government, attitudes to imports, attitudes towards your country, government involvement in business and trade, and attitudes towards economic growth.
- *Understand the Economic Environment:* Know these economic indicators: GDP per capita growth, balance of payments, currency convertibility and controls, the inflation rate, and saving rate. Real GDP per growth is a good indicator of a country's receptiveness to imports. You must also understand if the country has a balance of payments problem. If there is a problem, importing will not grow. Be wary if you cannot get your earnings converted into U.S. dollars, and if inflation reduces foreigner's purchasing power between ordering and the time you are eventually paid. Some economic indicators that suggest a high demand for a short time period include a low savings rate, a trade deficit, and reduced importing. In these cases, you cannot count on long-term success in the country.
- *Collect Information about Market Access:* Barriers to imports, ease of import process, legal protection for patents and trademarks, laws on profits and repatriation of profits, and regulations on labor employed by foreigners. Focus on the process of importing in a country. In countries such as Italy, France, Brazil, India, and China, which are hostile to imports, hassles and red tape sometimes create costly slowdowns for firms.
- *Know your Product's Potential:* Understand consumer characteristics/needs, availability of complementary products, and availability of suitable sales and support employees. Pinpoint needs for re-engineering. re-sizing, re-packaging, and changing material components.

3. ***Determine Entry Strategy and Pricing:***

- *Identify likely End-User Price:* You must decide on the price consumers are likely to pay for the product and work backwards to determine the price of your product to importers.
- *Determine your Initial Goal in Exporting:* Do you want to make a quick profit based on volume sales? Then price your product low. Do you want to establish an image of quality? Then consider pricing your product high. If your firm wants to follow a strategy of learning and long-term growth, then price your product low to a distributor or agent, which will teach you the facets of your new market.
- *Determine your Price based on the following criteria:* The basis for determining the price are as follows:
  - Channel Length: Identify market channel lengths. If the path from the export firm is long as given in following example, then your wholesale price must be lower than in the case of a shorter channel.

Example: Through an importer, primary wholesaler, secondary wholesaler, and a retailer to the customer

  - Market Demand: How much of a demand is there for your product? Is there a large and emerging middle class that is able to buy your product? What are your competitors charging for this product and based on its attributes, can you charge a different price?
  - Risks Faced: Your Company will have to analyze currency value changes and hedge against them. Impending dollar depreciation may allow the export

Notes

firm to gradually increase dollar prices. Country and political risks must be considered.

- Costs: Factor in your increased costs of product modification, shipping, insurance, tariffs, and taxes abroad.
- Terms: Included in the price should be your terms of shipping: CIF, FOB, CFR, FAS, etc

4. ***Plan an Operating Environment:***

- *Promotion and Advertising:* You must decide on promotion and advertising activities and other customer communication issues. The operating environment that eventually emerges from planning depends on what your firm has identified as its critical success factors and on the marketing channels it uses.

Example: Price, service, brand, or company image.

- *Services and Support:* In Asian countries, for example, American software sellers must establish elaborated pre- and post-sale customer training and support activities. Repair, maintenance, and spare parts issues must be dealt with.
- *Sales Force Training*: The complexity of your product and the level of your service and support offerings will determine the extent of sales force training need

5. ***Decide on the Appropriate Export Procedure:***

- *Internal Export Departments:* Most large companies have their own exporting department. Exporting details handled include transport analysis, shipping arrangements, documentation, customs, packing/labelling, cargo insurance, and consolidation.
- *External Export Services:* Smaller companies often choose to engage freight forwarders or use export management software to guide them through the export procedure. Either freight forwarder services or export management software must be purchased but represent far more economical options for smaller businesses that are unable to dedicate an entire department to the exporting process.
- *Freight Forwarders:* Freight forwarders handle the export procedure for companies. You can find information and price quotes for freight forwarders on many Websites. These sites have useful information ranging from packaging materials to means of transportation to the latest tracking features.
  - www.interpool.com/tcl/resource.shtml
  - http://www.freightnet.com/
  - http://www.justshipit.com/
  - http://www.freightcenter.com/
  - http://www.dggrpackaging.com/
- *Export Management Software:* Export management software allows you to submit general information between numerous countries (which would have all different forms) in one universal form to submit. It then guides you through a series of questions in order to make sure you are not illegally exporting to certain countries or using inconsistent standards with other countries. The software may also produce a commercial invoice and related documents for you.

Notes

6. ***Arranging Financing:*** Exporters must arrange for a method of payment and should consider the risk liability, which holds the market power, the level of trust in the relationship/ outcome and an examination of the final export product.

- *Cash in Advance:* Payment is to be made up front in cash. Cash in Advance is common when the product is in great demand, when the buyer has poor credit or when the importer's country is unstable.
- *Letters of Credit:* Document issued by bank, usually at the request of a buyer, obligating the bank to honor the seller's draft. This is the most common method of payment for international exporting. There are two different forms of letter of credit:
  1. Sight draft: an exporter's bank requests payment directly from the importer's to automatically transfer funds.
  2. Time draft: an extension of credit to the importer. The importer can defer payment for a period of time. It is the bank's responsibility for collection and also their reputation on whether or not the payment will be made. There are also site and time versions of drafts for collection. This entails payment on maturity of draft or upon its presentation.
- *Open Account:* Seller ships the products with an invoice and waits for payment. This is the cheapest method of payment, but also the riskiest. This method is most common and makes the most sense for intra-company shipments. Companies may choose to finance their efforts through internal funding from profits or externally through investors, banks, and governments. There are two kinds of financing available for exporting. Working capital loans acquire supplies, develop overseas markets, or build inventories. Transaction loans support specific transactions. In order to acquire these loans, an exporter needs export credit insurance before a bank will provide any type of financing.

Notes Companies unable to secure financing from banks can turn to other financing options.

- Boutiques: Private lenders called boutiques will back export deals deemed too risky by bankers. Although they appear to be an easy solution, they charge high service fees.
- Forfeiting: This is a sale by an exporter of a receivable to a forfeit company for a discounted payment. When dealing with some countries, exporters may have to fund the importer, especially in developing countries where interest rates are devastatingly high. If you can offer terms beyond 180 days, it may increase your business prospects.
- Factoring: This is the sale of export receivables to a factoring firm, which will undertake collections. A company that handles factoring will transfer the invoice into the importer's currency, pay the exporter, and then collect the payment from the importer. Factoring is mostly used in developed countries where the risk is low and collection is high.

All of these methods of financing can be effective but you must analyze your exporting process and the importing country individually to determine the best fit for your company.

Notes

Self Assessment

Fill in the blanks:

1. To ..... means to sell in another country.
2. ..... is mostly used in developed countries where the risk is low and collection is high.
3. Seller ships the products with an ..... and waits for payment.
4. ..... is common when the product is in great demand, when the buyer has poor credit or when the importer's country is unstable.
5. Freight forwarders handle the ..... procedure for companies.
6. Smaller companies often choose to engage freight forwarders or use ..... software to guide them through the export procedure.
7. ..... must be evaluated for their receptiveness to trade and investment.
8. The ..... Trade is governed by rules made by the World Trade Organization (WTO).

Caselet

Export Business

Shaw Moisture Meters has a long and illustrious history of exporting to India where its ultra precision instruments have long been prized for their quality. It began exporting to India 30 years ago and the country remains one of its top six worldwide markets.

The firm, whose dewpoint meters measure in parts per billion, was originally set up to test the moisture content of wool in the Yorkshire textile industry in the immediate post-war years. Since then, Shaw Moisture Meters has specialised in measuring trace moisture in gases and compressed air and its products have found applications in numerous industries. In India the firm sells to many industrial companies including compressed air, electronics manufacture and power generation applications.

The company operates in India using a long-standing representative, although managing director Tim Peters has regular contact with both the representative and end customers to maintain all-important relationships. He stresses the importance of keeping those on the ground up to date with as much information and support as possible to retain close ties with customers.

"It's a growth market and we are seeing increasing levels of business," he says. "We have a strong presence there and it's improving. We have a massive plus in India because of our pedigree.

"Our history of being an established British manufacturing company stands us in good stead. Our reputation for a quality product and excellent levels of service is complemented by being in business for 60 years."

As many other exporters have discovered, having close ties with those whom you deal with is all-important in India – and very different from doing business in European countries.

Contd...

Notes

Mr Peters cautions that one of the downsides of doing business in India is the amount of bureaucracy which is often involved.

"Many organisations seem to have taken British bureaucracy and tripled it," he adds. "We do more Letters of Credit for India than anywhere else and it is the preferred option for most of the nationalised industries. The extra paperwork creates a lot of additional work with the order processing and payments procedures.

"In India, more than any other country in the world, paperwork is done in triplicate and there are a lot of stages in the purchasing process. But if you get it right, Indian companies are happy to deal with you again."

Source: http://www.chamber-international.com/export-import-key-markets/export-to-india/what-is-export-business/

12.2 Example of Export Procedure

To focus better on the issue, let us take the example of an exporter Ratnesh from Delhi, who deals dealing in auto parts. He receives an enquiry from abroad for supplying a certain part in good numbers. Now we will see the step-by-step route that Ratnesh needs to follow.

12.2.1 Enquiry

This is the beginning of an export transaction. This reflects the buyer's interest and specific requirements.

In this case, Ratnesh ideally should have received the following details:

- Vehicle Model Number and its Type (like Isuzu 312, MUV)
- Original Part Number and its full description (like 01256, radiator hose)
- Size/Technical specifications
- Drawing
- Original Sample
- Quantity required
- Packing Requirements
- Price Specification Required - FOB/C&F/CIF
- Delivery Schedules
- Mode of Shipment - Sea/Air
- Mode of Payment - like Letter of Credit
- Production sample approvals, if required
- Pre-shipment Inspection Requirements, if any
- Any other Certification/Compliance required, like a Certificate of Origin

12.2.2 Quotation

- Ratnesh must go through all the details in the enquiry and in case there is need for some clarifications, he must immediately get in touch with the buyer.

Notes

- Based on the details of the enquiry, Ratnesh will prepare his quotation, also called a Proforma Invoice and submit the same to his buyer for approval.

Task Discuss the beginning step of export transaction.

12.2.3 Order Receipt and Acceptance

- If the buyer is satisfied with the quotation, he will approve the same and place a firm order on Ratnesh. If the importer wants certain changes in the offer from Ratnesh, he will ask Ratnesh and after due negotiations/discussions, mutually agreed changes will be made by Ratnesh and the quote will have to be resubmitted. The buyer will approve this new quote and place a firm order on Ratnesh.
- On receipt of the order, Ratnesh must immediately acknowledge the acceptance of the same.

12.2.4 Finance, Production and Packing

- Ratnesh will need to arrange finance to produce the order in time. He could avail the pre-shipment finance facilities offered by all nationalized banks to exporters in India at special interest rates.
- Ratnesh will also organize production for timely shipment. He will ensure compliance of quality standards as per the buyer's expectations. In case, a pre-shipment inspection is required by the customer's nominated agency, Ratnesh will have to get their approval as well.
- Ready goods will need to be packed as per the instructions of the importer. In the absence of any such instructions, Ratnesh will have to ensure good export-worthy packing.

12.2.5 Excise Clearance

Before Ratnesh is allowed to remove the goods for export from his factory/godown, he will need to complete excise formalities, if his unit falls under the purview of excise.

Caution Goods exported from India are free from payment of excise duties and the exporters are required to follow the procedure prescribed to claim this benefit under the Central Excise Act, 1944.

12.2.6 Export Documents

Ratnesh will now prepare the basic export documents, Invoice and Packing List. He will hand these over to his C&F agent.

C&F agent will prepare shipping documents including the following:

- Shipping Bill in multiple copies
- Commercial Invoice
- Packing List
- SDF (in duplicate)

Notes

- LC (original)
- Copy of Export Order
- Inspection Certificate
- ARE-1 & ARE-2 forms (in duplicate)

12.2.7 Cargo Insurance and Shipping Space Reservation

- The C&F agent will book shipping/air space for the cargo. He will also arrange for cargo insurance, if Ratnesh so desires.
- Ratnesh will send the cargo to the C&F agent, who will take it direct to the port of shipment or store it in his own warehouse, as per the situation.

12.2.8 Customs Clearance

- The C&F agent will submit the documents with the Customs.
- The Customs Examiner will check the documents for compliance with customs' rules and procedures as well as for accuracy of quantity and value in the export documents with export order/LC.
- The Customs Examiner will also instruct the Dock Appraiser for physical examination of cargo.
- The C&F agent will bring the export cargo to the port for examination.
- The Dock Appraiser will conduct physical examination of the goods and if satisfied will endorse "Let Export" on the shipping bill copy.
- The Preventive Officer will also endorse the same shipping bill copy with the words "Let Ship" to accord his approval to the cargo.
- The C&F agent will now proceed to get the cargo loaded on board the ship. The Master of the ship will issue 'Mate's Receipt' to the port's Shed Superintendent.
- The C&F agent will pay the relevant port dues and collect the Mate's Receipt. He will then submit this receipt with the shipping company.
- The shipping company will release bill of lading to the C&F agent in exchange of the Mate's Receipt.

12.2.9 Receipt of Shipment Documents from C&F Agent

The C&F agent will then deliver the bill of lading together with other shipment documents to Ratnesh. These will include:

- Complete set of Clean on Board Bill of Lading
- Copies of Customs attested Commercial Invoice & Packing List
- Original LC and Export Order
- Drawback Copy of Shipping Bill
- ARE-1 and ARE-2 forms
- SDF (duplicate copy)
- Copies of Certificate of Origin/Consular Invoice/Customs Invoice, if required

Notes

12.2.10 Shipment Advice to Buyer

Ratnesh must now send a shipment advice to his buyer giving him particulars of the shipment – date, vessel name, ETA, etc. He must enclose a copy each of the commercial invoice, packing list and bill of lading with this advice.

12.2.11 Presentation of Shipment Documents to the Negotiating Bank

Ratnesh now has to present the following documents to his bank:

- Bill of Exchange/Draft (First and Second Original)
- Complete set of Bill of lading (negotiable and non-negotiable)
- Commercial Invoice copies in required number
- Packing List copies in required number
- SDF (duplicate copy)
- Cargo Insurance Policy
- Original LC
- Export Order
- Bank Certificate in prescribed format
- Certificate of Origin/Consular Invoice/Customs Invoice, if required
- Inspection Certificate by the buyer nominated agency, if applicable

12.2.12 Presentation of Documents for Payment to Foreign Bank by the Negotiating Bank

- Ratnesh's bank will now thoroughly scrutinize these documents against the terms of the LC and export contract.
- Once satisfied, the bank will send this set of documents to the buyer's bank.
- The importer's bank will release payment once it is satisfied that the documents are in order.
- The duplicate copy of the SDF will be directly sent by Ratnesh's bank to the Exchange Control Department of the RBI, on receipt of the payment from the buyer's bank.

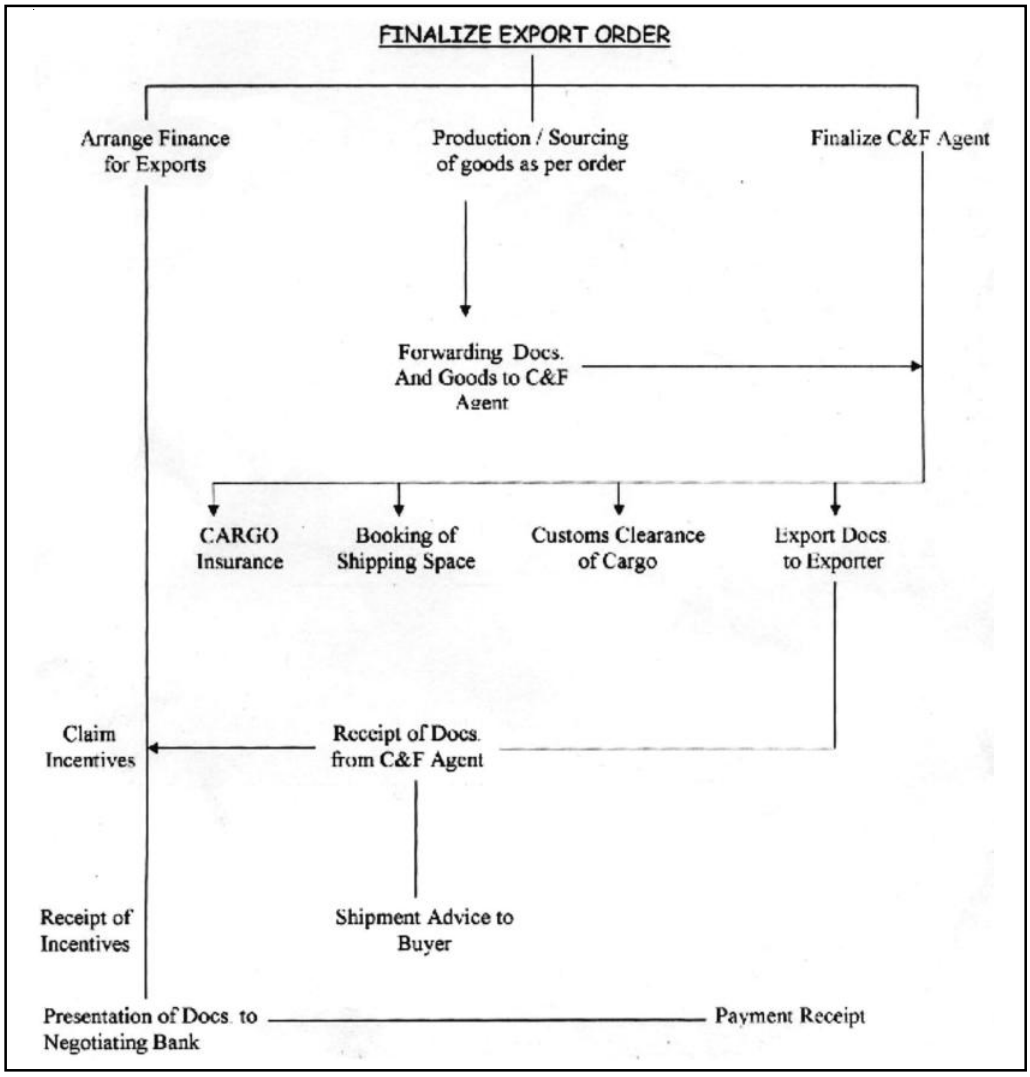
12.2.13 Export Incentives

Ratnesh will also file his claim for excise exemption and receive the due amount of duty drawback as well.

Notes An export transaction is a series of many diverse yet inter-related activities.

The exporter has to not only work himself but also has to deal with various agencies like the C&F agent, bank, shipping company/airlines, port authorities, customs, excise, sales tax, transporters, inspection agencies, and so on. A brief visual of various activities is given below as a one-glance shot:

Notes



Having seen the above at a glance, one thing surely stands out and that is the role and responsibility of the C&F agent. As the name suggests, these are professional agencies that specialize in customs clearing of both export as well as import cargo. In addition, they also undertake warehousing and haulage operations. They are also known as Custom House Agents (CHAs) or Freight Forwarders. They perform a variety of tasks that lessens the burden of the exporter. Most exporters/importers around the world use such services and now we have certain multinational operators in this particular field.

Did u know? India also has seen the growing presence of such multinationals. Some of the famous names include Fritz Freight, Expediters, Schenkers, Bax Global, etc.

Faced with declining exports, the government today announced a slew of measures including extension of the popular EPCG scheme to all sectors and sops for Special Economic Zones (SEZs) to boost shipments. The initiatives announced by Commerce and Industry Minister as part of the annual supplement to the Foreign Trade Policy (FTP) are aimed at pushing exports which declined by 1.76 per cent to USD 300.6 billion during 2012-13 and pushed up the trade deficit to USD 190.91 billion.

Notes

Following are few schemes of Foreign Trade Policy:

1. ***Foreign trade policy:*** The main attractions of the Foreign Trade Policy for 2013-14 include extension of zero duty Export Promotion Capital Goods (EPCG) scheme that allows duty free import of capital goods to all sectors, widening the interest subvention scheme for the engineering and textiles sector, allowing use of duty credit scrip beyond duty free imports, and permitting the transferability of status holder incentive scheme.

2. ***Operational flexibility:*** More operational flexibility was also given to Special Economic Zones (SEZs) with the Government reducing the area requirement by half for all SEZs and doing away with the minimum area requirement for IT SEZs.

3. ***Revenue outgo:*** It is, however, refused to make an estimate of the revenue outgo for the schemes stating that it all depended on how much was exported by the qualifying sectors. The extension of zero duty EPCG scheme to all sectors will promote the technology intensity of exports. Textile exporters benefiting from the Technology Upgradation Funds Scheme will also be allowed to avail themselves of the EPCG scheme.

   The FTP did not extend any fiscal sop to the SEZ units, but it would now be much easier for the zones to come up. The minimum area requirement for multi-product SEZs has come down to 500 hectares from 1,000 hectares while sector-specific SEZs will be allowed to come up in an area of 50 hectares, down from 100 hectares. There would be no minimum land requirement for setting up IT/ITES SEZ and builders will have to meet only the minimum built up area requirement.

4. ***Exit policy:*** An exit policy permitting transfer of ownership of SEZ units, including sale, has also been introduced in the SEZ Framework. Moreover, sector-specific SEZs have been allowed to bring in an additional sector for each contiguous (continuous) 50 hectare parcel of land. This means that a sector-specific SEZ can go beyond its particular sector if it manages to get more land.

5. ***Minimum alternate tax:*** SEZ developers and units are, however, disappointed that the Government has not exempted them from minimum alternate tax (MAT). The SEZ units have not been made eligible for the focus product and the focus market schemes are not available to domestic exporters.

6. ***Interest subvention:*** While the discount rate of 2 per cent was not enhanced in the interest subvention scheme, the Government has extended the scheme up to March 31, 2014 and included 134 sub-sectors of engineering in addition to handicrafts, handlooms, carpets, garments, processed food, sports goods and toys. Small and medium enterprise sector, too, would continue to get the benefit.

7. ***Focus market scheme:*** Norway has been added as a new market under the Focus Market Scheme, which gives exporters a 2 per cent duty credit (that can be transferred for money) taking the total number of markets to 125.

Exports to Venezuela will now be eligible for the Special Focus Market Scheme that allows a duty credit of 4 per cent taking the number of such markets to 50.

As many as 47 new items have been added to the Market Linked Focus Product Scheme and the benefits for exporting textile to the EU and the US have been extended by another year.

Apartfrom the above schemes, there are other Export Policy Incentive Schemes which can be categorized as following:

Advance Authorisation Scheme: The Advance Authorisations are issued to allow duty free import of inputs, which are physically incorporated in the export product (after making normal

Notes

allowance for wastage). In addition, fuel, oil, energy catalysts, etc., which are consumed in the course of their use to obtain the export product are also allowed under the scheme. The raw materials/inputs are allowed duty free as per the quantity specified in the Standard Input-Output Norms (SION) notified by the DGFT or as per self-declared norms of the. The Advance Authorisations are not issued for some specified items like vegetable oils, cereals, spices, honey, etc. The Advance Authorisation holder is required to fulfill the export obligation (EO) by exporting a specified quantity/value of the resultant product. The Advance Authorisations are issued both for physical exports as well as deemed exports. These are also issued on the basis of annual requirements of the exporter, which enables him to plan his manufacturing / export programme on a long term basis. The Advance Authorisations are issued on pre-export or post export basis in accordance with the FTP and procedures in force on the date of issue of Authorisation.

The imports/exports against Advance Authorisations and their utilization require proper monitoring as the goods are imported duty free against a liability to export. For this, the Advance Authorisation holder is required to maintain a proper record of his imports and exports and to pay the duties in case he is unable to fulfil his export obligation, the Advance Authorisation holder is required to indicate the Advance Authorization No./ date on the body of the Shipping Bill/Invoice (in case of deemed exports). After fulfilment of specified export obligation, the Advance Authorisation holder is required to submit relevant export documents along with Advance Authorisation to the DGFT authorities for obtaining Export Obligation Discharge Certificate (EODC). After obtaining EODC, the Advance Authorisation Authorization holder produces the same before the Customs for the purpose of obtaining redemption of bond/Bank Guarantee filed by him. The concerned Commissioners of Customs and Central Excise are also required to effectively monitor the compliance with provisions of Customs Notifications. The Commissioners of Customs have also been advised to put in place an institutional mechanism whereby they meet the RLA at least once every quarter to pursue issues relating to EO fulfilment status so that the action is taken against defaulters.

The Advance Authorisations normally have a validity period for fulfilment of Export Obligation(EO) of 36 months from the date of issue with certain exceptions. The relevant DGFT authority who issues the Authorisation is competent to grant revalidation or grant extension of EO period beyond the prescribed period. No All Industry Rate (AIR) of Duty Drawback is admissible to an Advance Authorisation holder. However, the Advance Authorisation holder is entitled to claim Brand Rate of Duty Drawback in respect of inputs which are not imported against the Advance Authorisation and on which Customs/Excise duties have been paid. Every Advance Authorisation holder is required to maintain a true and proper account of consumption and utilisation of duty free imported/domestically procured goods for a minimum period of 3 years.

Duty Free Import Authorisation (DFIA): The Duty Free Import Authorisation (DFIA) scheme introduced in 2006 is similar to Advance Authorisation scheme in most aspects except with a minimum value addition requirement of 20%. Once export obligation is completed, transferability of authorisation/ material imported against the authorisation is permitted. However, once the transferability has been endorsed, the inputs can be imported/domestically sourced only on payment of Additional Customs duty/Central Excise duty. The DFIA Authorisations are issued only for products for which SION have been notified. This scheme is operationalized through a Notification No.40/2006-Cus., dated 1-5-2006. The DFIA Scheme in the present FTP (2009-14) was operationalized by the Customs Notification.

The monitoring of export obligation is an essential ingredient of the DFIA scheme. Thus, the Commissioners of Customs have been advised to put in place an institutional mechanism whereby they meet the RLA at least once every quarter to pursue issues relating to EO fulfilment status so that the concerted action is taken against defaulters. Further, there is a requirement that

Notes

in case the facility of rebate under Rules 18 or 19(2) of the Central Excise Rules, 2002 or CENVAT facility under the Cenvat Rules, 2004 has been availed, then the duty free imported goods have to be used in the manufacture of the dutiable goods.

Reward Scheme - Served From India Scheme: Served from India Scheme (SFIS) incentivizes exports of specified goods/exports to certain countries. The objective of SFIS is to "accelerate growth in export of services so as to create a powerful and unique 'Served From India' brand, instantly recognized and respected world over." All Indian service providers, who have free foreign exchange earning of at least ₹ 10 lakh in preceding financial year/current financial year are eligible for SFIS. For individuals, the limit of minimum free foreign exchange earnings is ₹ 5 lakh. Under this scheme, duty credit scrip @10% of free foreign exchange earnings are given to the exporter.

The duty credit scrip can be used for import of any capital goods including spares, office equipment and professional equipment, office furniture and consumables that are otherwise freely importable and/or restricted under ITC (HS). Imports have to relate to any service sector business of applicant. While import of vehicles per se is not permitted, vehicles in the nature of professional equipment's to the service provider like Air Fire Fighting and Rescue Vehicles (AFFRVS), Heavy Duty Modular Trailer Combination etc. are permitted. In case of hotels, clubs having residential facility of minimum 30 rooms, golf resorts and stand-alone restaurants having catering facilities, duty credit scrip can also be used to import consumables including food items and alcoholic beverages. The entitlement/goods (imported/procured) are subject to Actual User condition i.e. non-transferable (except within Group Company and managed hotels).

12.2.14 Functions

C&F agencies mainly perform the following important functions:

- Customs clearance of export/import cargo
- Consolidation of cargo
- Advice on shipping/air routes
- Booking of ship/air space
- Inland haulage in both countries
- Loading/offloading activities
- Cargo Insurance
- Warehousing facilities both local and foreign
- Packing/Repacking Activities
- Documentation Services
- Attending to Port Formalities
- Helping exporter with filing claims for export incentives
- Assist in pre-shipment inspection by buyer nominated agency
- Represent shipping companies to offer one window services

Task State some of the functions of C & F agents.

Self Assessment

Notes

State whether the following statements are true or false:

9. If the buyer is satisfied with the quotation, he will not approve the same and place a firm order.
10. C&F agencies are professional agencies that specialize in customs clearing of both exports as well as import cargo.
11. An export transaction is a series of many diverse yet inter-related activities.
12. The shipping company will not release bill of lading to the C&F agent in exchange of the Mate's Receipt.

Case Study

KSR, An Actual Freight Forwarding Company

KSR Freight Forwarders is a reliable freight forwarding company in India located in the capital city of New Delhi. The company specializes in air freight forwarding, custom clearance, shipping, warehousing in India. It has gained a rich experience in freight forwarding field that enables it to cater to clients' specific requirements. It handles a wide range of goods from Cotton Garments to Leather Garments, Footwear and Granite. Cotton Fabrics account for a substantial portion of our turnover, and we can confidently say that our expertise in this area is unrivalled. The specific operational requirement of each commodity is well understood by our field staff and shipments are planned accordingly. We handle approximately 150 TEUS per month.

Services Offered

- Air Freight Forwarding
- Custom Clearance
- Packing
- Shipping
- Multi Modal Transport Facilities
- Warehousing

We mainly handle the following buyers in U.S.A.

- Capital Mercury Shirt Corp New York, U.S.A.
- Ivory International Inc., Miami, Opalocka
- The Gap Inc., Long Beach, U.S.A.
- Federated Products New York, U.S.A.
- J.C.Penny Inc., U.S.A.
- Kohl's Department, U.S.A.
- Nike, U.S.A.

Contd...

Notes

- Philip Van Huisen, U.S.A.
- Goodys Family Clothing Inc., U.S.A.
- Associated Merchandising Corp., U.S.A.
- Blair Corporation, U.S.A.
- Roytex Inc., New Orleans, U.S.A.
- Tommy Hilfiger, U.S.A.
- Mother's Work Inc., U.S.A.
- Asian American Partners, U.S.A.
- Nitches Inc., U.S.A.

We have good relationship with the following consolidators:

- Expeditors International
- American Consolidators Service
- Maersk Logistics India Ltd.
- Fritz
- Panel Pina
- Orient Consolidation Service

We have good relationship with the following Liners:

- Maersk India Ltd.
- American President Line
- Evergreen Shipping
- P&O Nedloyd

Imports

We handle import consignments like hangers, fabric, sewing machine and accessories from Hong Kong, Korea, Thailand, China and Colombo for major exporters in India. We have an excellent team headed by professionally qualified [Indian Customs] and experienced managers to lead our import department. We have a tremendous team to clear the consignment at the right time to our client in India; we have our own transport to deliver the goods after customs clearance at the door of our client.

We remain in touch with our clients [importer] from Berthing of Vessel till the consignment is received by our clients in India. We have good rapport with customs and docks officials, which has contributed to KSR's success. Over the years, KSR has proved its unwavering commitment to international standards. At every stage of forwarding, right from pre-allot up to sailing advice, KSR has developed handling and reporting systems that meet the stringent standards of overseas buyers.

Question:

Prepare a short briefing on above case study.

Source: www.ksrindia.com

Notes

12.3 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- A step-by-step description of various activities involved in an export transaction from India was carried out with the help of an example.
- An exporter first receives an enquiry with relevant details like description of item, detailed specifications, quantity required, packing requirements, mode of dispatch, inspection requirements, etc.
- The exporter then has to quote his price by way of a proforma invoice, which once approved, becomes the basis of the export contract. On receipt of the order, the exporter must convey its acceptance to his buyer. Now the exporter has to arrange for finance, start production to meet the desired delivery schedule and appoint C&F agent.
- The exporter has to arrange for the insurance of the export cargo. The C&F agent takes care of a lot of activities after receipt of the basic shipment documents, Invoice and Packing List, from the exporter.
- He prepares the Shipping Bill and submits it with the customs authorities together with other shipment papers. He also receives the export cargo from the exporter and presents it to the customs for physical examination.
- Once both the documentary and physical checks are over, the approved for shipment cargo is loaded on to the vessel. The C&F agent takes delivery of the Mate's Receipt from the port authorities after paying their charges. He then receives the full set of clean on board bill of lading from the shipping company in exchange for the Mate's Receipt.
- The C&F agent then delivers the shipment documents to the exporter. The exporter then submits the documents to his bank, which after thorough scrutiny of the same sends these to the importer's bank abroad for payment.
- On receipt of the payment, the duplicate copy of the SDF will be directly sent by the bank to the Exchange Control Department of RBI. The exporter will then file his claim for excise exemption and will also receive duty drawback amount due to him.
- The last part of the lesson highlighted the role and responsibilities undertaken by C&F agents. A live example of the services offered by a freight forwarding company was also given.

12.4 Keywords

Custom Clearance: It is the custom formalities for the freight subjected to the procedure for authorization of free circulation of the freight when it is released from the custom control and enters in full disposal of the importer provided all required charges, tariffs and other duties paid.

Excise: Excise is a kind of indirect tax widely used by state institutions for collecting additional income to the budget.

Export Incentives: A government program that makes it more attractive for a firm, industry, or country to export.

Export: A function of international trade whereby goods produced in one country are shipped to another country for future sale or trade.

Imports: A good or service brought into one country from another.

Notes

Packing: A bundle arranged for convenience in carrying especially on the back.

Quotation: A very common term which actually refers to two numbers – the highest bid price currently available for a security or commodity.

Shipping: The process of transporting an item, usually through the mail. Shipping is a very basic, common way of getting an item from one place to another, or from one person to another.

Warehousing: Performance of administrative and physical functions associated with storage of goods and materials.

12.5 Review Questions

1. What are the main contents of enquiry in export transaction?
2. What is the role of proforma Invoice?
3. What are the export documents prepare by C&F agents?
4. Outline the shipment procedure for exports from enquiry to payment receipt stage.
5. What is the role played by C&F agents in export? Discuss their importance as assistants to exporters.
6. Write short notes on: (a) Documentary Check versus Physical Examination (b) Release of Mate's Receipt.
7. Discuss the procedure of export in detail.
8. What precautions must consider while doing export?

Answers: Self Assessment

1.	Export	2.	Factoring
3.	Invoice	4.	Cash in Advance
5.	Export	6.	Export Management Software
7.	Countries	8.	International
9.	False	10.	True
11.	True	12.	False

12.6 Further Readings

Books

International Marketing - Analysis and Strategy by Sak Onkvisit, John.J.Shaw

International Marketing, Awdrew Mcauley

International Marketing, Dana-Nicoleta Lascu

International Marketing, Philip. R. Cateora and John . L. Graham

Varshney, R.L. and Bhattacharya, B. (2001), *International Marketing: An Indian Perspectives*, Sultan Chand, New Delhi

Notes

Online links

http://www.dti.gov.ph/dti/index.php?p=223

http://www.enterprise-ireland.com/en/Export-Assistance/Get-Export-Ready/Steps%20to%20Exporting/Steps-to-Exporting1.pdf

http://www.exporthelp.co.za/modules/intro.html

http://www.slideshare.net/WelingkarDLP/22-15062840

http://www.unzco.com/basicguide/c4.html

Notes

Unit 13: Export Documentation

CONTENTS

Objectives

Introduction

13.1 Significance of Export Documentation

13.1.1 Statutory Control

13.1.2 Function of Export Documentation

13.2 Declaration Forms

13.2.1 Disposal of Export Documentation Form

13.3 Major Documents

13.3.1 Documents for Transportation of Goods

13.3.2 Documents for Customs Clearance of Goods

13.3.3 Other Documents

13.3.4 Export Assistance Documents

13.4 Export Documentation Requirements in India

13.5 Summary

13.6 Keywords

13.7 Review Questions

13.8 Further Readings

Objectives

After studying this unit, you will be able to:

- Explain the significance of export documentation
- Describe the declaration form
- Discuss the major documents
- Elaborate export documentation requirements in India

Introduction

Documentation is an important part of import procedures. It plays an important role right from the beginning when an exporter gets an order from a buyer to the final stage to seek export incentives offered by the government. Documentation facilitates smooth flow of physical goods and payments thereof across national frontiers at every stage during the export operations. A number of documents are required. Documentation serves two required purposed namely (a) regulation of trade and (b) facilitation of export operations.

13.1 Significance of Export Documentation

In International trade, export documentation facilitates the flow of goods and payments across national boundaries. The significance of documentation lies in its nature and purpose they serve.

Notes

Various documents, which are invariably used, serve two purposes (i) to satisfy the various regulatory provisions of the government imposed upon export/import of goods and (ii) to facilitate export promotion (operational requirements).

Export documents have to be prepared for various purposes like declaration of export as per exchange control regulations of the country, transportation of goods, customs clearance of the goods and other purposes.

Notes Some of the forms for preparing documents have been standardised under the Aligned Documentation System introduced w.e.f. 1st October, 1991.

13.1.1 Statutory Control

Section 18 of the Foreign Exchange Regulation Act, 1973, as amended by FERA 1993, lays down the statutory controls concerning exports. Under the provision of this Section, the central government has issued two notifications on 1.1.1974 related to exports by post/other than by post. Notification no. FI/67/EC/73-1, dated 1st January, 1974 as amended, deals with export other than by post and prohibits the export of all goods directly or indirectly to any place outside India, other than Nepal and Bhutan unless an exporter furnishes a declaration in the prescribed form and affirms in the said declaration that the full export value of the goods has been or will be paid in the prescribed period and manner.

The notification further provides that the above prohibition shall not apply *inter alia* to the export of:

1. Trade samples supplied free of payment.
2. Personal effects of travellers, whether accompanied or unaccompanied.
3. Goods despatched by air and accompanied by a declaration by the sender that they are not more than ten thousand rupees in value and that their dispatch does not involve any transaction in foreign exchange.
4. Goods despatched by airfreight and covered by certificates issued by an unauthorised dealer that their export does not involve any transactions in foreign exchange.
5. Goods the export of which, in the opinion of Reserve Bank of India, does not involve any transaction in foreign exchange and which the Reserve Bank has, by general or special order, permitted to be exported without furnishing a declaration as provided for herein.

13.1.2 Function of Export Documentation

Export documentation may serve any or all of the following functions:

- An attestation of facts, such as a certificate of origin
- Evidence of the terms and conditions of a contract if carriage, such as in the case of an airway bill
- Evidence of ownership or title to goods, such as in the case of a bill of lading
- A promissory note; that is, a promise to pay
- A demand for payment, as with a bill of exchange
- A declaration of liability, such as with a customs bill of entry
- A receipt for goods received.

Notes

Self Assessment

State whether the following statements are true or false:

1. Export documentation facilitates the flow of goods and payments across national boundaries.
2. Export documents are prepared only to meet regulatory terms imposed by the government.

Caselet

Document Alignment

Document Alignment is a major trade facilitation activity, whereby trade documents are based on the United Nations Layout Key and thus aligned in a standard format. Deriving national document subsets from the UN Layout Key rules simplifies trade documentation on an international scale, bringing considerable benefits to traders.

History

International trade developed over the centuries in an unstructured and ad hoc manner, as countries exchanged goods and products they excelled in for those, which they lacked. Documents accompanying these transactions followed a similarly haphazard path, to where numerous documents in a variety of formats were required for each export shipment. An order number might appear on the right or left side of a form; addresses could be shown as lines or blocks.

The situation started to improve in the mid 1960s with the document alignment work initiated by Sweden, standards developed by the Trade Facilitation Working Party of the UN/ECE (WP.4), and the 1965 publication of the United Kingdom Board of Trade's Simpler Export Documents.

Alignment Aims

The objective of an aligned series of documents is to have as many forms as possible printed on the same size paper and to have common items of information occupying the same relative position on each form.

For example, shipper top left, references top right, signatory details bottom right and so on. This makes forms both easier to complete and easier to process. Since common positions are used for data items, it is possible to use multi-part sets of different forms or to type a 'master document.' This master document can be used to produce a range of documents using a photocopier and overlays (to provide the form outlines and hide unwanted data).

Everyone in the international trade chain benefits from easier document processing. Using documents that comply with UN alignment standards speeds up form preparation, cuts costs and reduces errors. You may actually get paid quicker! Aligned documents simplify document checking and training of new staff. They even enhance an organisation's professional image.

Document alignment has been a major agenda item for the UN/ECE Expert Group on procedures and documentation, with the goal of simplified international trade documents.

Source: Lining up benefits for international trade by Tessa Jones, Head of Publications at SITPRO, the Simple Trade Procedures Board, the UK's trade facilitation agency http://www.unece.org/trade/cnct/art1944.

Notes

13.2 Declaration Forms

There are four main declaration forms, which are prescribed. These are called GR, PP, VP/COD and Softex Forms. All exports to which the requirement of declaration applies must be declared on appropriate forms as indicated below:

- ***GR Form:*** Used for exports to all countries made otherwise than by post. The Reserve Bank of India has devised this form. It is a declaration form declaring that the foreign exchange realised in lieu of goods exported will be deposited with the RBI. This document is filled in and submitted by the exporter. The form is prepared in duplicate; the original has to be submitted to the customs authorities at the time of shipment, which is sent back by them to the RBI. The duplicate copy of the form is submitted to the negotiating bank along with other documents after shipment of the goods. It is also sent to the RBI by the bank. When an exporter wants to retain the proceeds in the importing country, with agent or branches abroad, the exporter has to seek the permission of Reserve Bank of India.
- ***PP Form:*** Used for exports to all countries by parcel post, except there made a "Value Payable" or "Cash on Delivery" basis.
- ***VP/COD Form:*** Used for exports to all countries by parcel post under arrangement to realise proceeds through postal channels on "Value payable" or "Cash on Delivery" basis.
- ***Softex:*** Used for export of computer software in non-physical form.

13.2.1 Disposal of Export Documentation Form

GR forms covering export of goods other than jewellery should be completed by the exporter in duplicate and both the copies should be submitted to customs at the port of shipment. Customs will give their running serial number on both the copies of GR forms after verifying the particulars and admitting the corresponding shipping bill. The value declared by exporter will also be verified by customs and they will also record the assessed value. Duplicate copies will be returned to exporter and customers for onward submission to Reserve Bank of India which will retain the original. Duplicate copy of GR form will again be presented to customs at the time of actual shipment. After examination of goods and certifying the quantity passed for shipment, the duplicate copy will again be returned to the exporter for submission to the authorised dealer. However, an exception to submission of GR forms to the customs authorities has been made in case of deep-sea fishing.

The PP forms are to be presented to an authorised dealer for counter signatures. The authorised dealer will countersign the form only if the post parcel is addressed to his branch or correspondent bank in the country of import. The concerned overseas branch or correspondent is to be instructed to deliver the post parcel against payment or acceptance of relevant bill as the case may be. The authorised dealer will return the original PP form after countersignature to the exporter and he will retain the duplicate. The original PP form should then be submitted to post office along with the parcel.

Caution In case of VP/COD forms only one copy is required to be completed and submitted to post office along with the relative parcel at the time of dispatch.

The export of computer software may be undertaken in physical form, i.e. software prepared on magnetic tape and paper media as well as in non-physical form by direct data transmission through dedicated earth station/satellite links. The export of computer software in physical

Notes

form is subject to normal declaration on GR/PP form and regulations applicable thereto will also be applicable to such exports. However, export of software in non-physical form is fraught with many risks and special guidelines have been framed for handling such exports.

Task What do you think, should documentation be completely computerized or good old paper system is better? Give valid reasons.

Self Assessment

State whether the following statements are true or false:

3. GR form is a declaration form declaring that the foreign exchange received from export will be deposited with the RBI.
4. Softex is used for export of computer software in physical form.
5. Deep sea trading was a case where an exception to submission of GR form to custom authorities was made.
6. In case of VP/COD forms, only one copy is required to be filled and submitted.

13.3 Major Documents

Some of the major documents in international business are discussed in following sub-sections:

13.3.1 Documents for Transportation of Goods

The following documents are connected with the transportation of goods:

- ***Airway bill/air consignment note:*** The receipt issued by an airline company or its agent for carriage of goods is called airway bill or air consignment note. It is not a document for title and it is not issued in a negotiable form. The goods are delivered to the consignee mentioned in AWB after identifying himself as the party named in the airway bill as consignee/receiver against payment of charges, if any. It is, therefore, desirable to consign the goods in the name of a foreign correspondent bank, as it will enable you to retain control over goods until the payment is made/documents are accepted for payment. The airway bill consists of three originals and six to eleven copies. It is a non-negotiable document. Original 1 (green) is retained by the carrier issuing AWB for accounting purposes. Original 2 (pink) accompanies the consignment to final destination. Original 3 (blue) is given to the shipper as proof of receipt of goods for shipment. Another reason for processing the export documents is that they are required for operational purposes. The customs authorities are entrusted with the primary responsibility of verifying that all the requirements of the regulations in force in the country have been complied with by the exporter.
- ***Bill of lading:*** If the cargo is to be exported by ship, a very important document is the bill of lading, i.e. an acknowledgement by the shipping company that the goods to be exported have been shipped on board. A bill of lading is also an undertaking that the goods in the same condition as received will be delivered to the consignee provided the freight has been duly paid.

Notes

Did u know? Depending upon the export contract, if it is on a Cost Insurance and Freight (CIF), the importer makes the payment of freight and gets the "freight collect" bill of lading. If, on the other hand, the contract is Free on Broad (FOB), the freight has to be paid by the exporter and gets a "freight paid" bill of lading.

The bill of lading should contain the following conditions:

1. Name of the ship
2. Place of loading
3. Date of loading
4. Port of loading
5. Description of goods and marks of identification
6. Freight paid or to pay
7. Name and address of consignee
8. Post of destination

Notes A bill of lading may be clean or foul/clause.

A clean bill of lading is one in which there is no superimposed clause or statement declaring defective condition goods or of the packaging or some other aspect of consignment. On the other hand, a foul/clause bill of lading is one on which the captain of the ship marks some foul remarks such as goods damaged, leaking, package broken, etc.

- ***Mate receipt:*** It is issued by the chief of vessel after cargo is loaded and it contains the name of shipper, place of receipt and voyage number, port of loading, port of discharge, place of delivery, marks and numbers, container number, description of goods, gross weight and other details as per the standardised aligned document format. The receipt is of a transferable nature and must be presented at the shipping company's office to be exchanged into bill of lading.
- ***Combined transport document:*** Inland Container Depots (ICD) has been set-up at various centres in the country. These dry ports have made it possible to cover the entire movement of goods from ICD to destination under the transport document called Combined Transport Document.

13.3.2 Document for Customs Clearance of Goods

Shipping bill is the main document required by the customs authorities for allowing shipment.

Shipping Bill: Basically, shipping bills are of four types. The major distinction between them lies with regard to the goods being subject to (a) export duty/cess (b) free of duty/cess (c) entitlement to duty drawback (d) entitlement of credit of duty under DEPB scheme and re-export of imported goods. The shipping bill is used for export of goods which neither attract any duty/cess nor are entitled to duty drawback on their exportation. Dutiable shipping bill is used in case of goods subject to export duty/cess but may or may not be entitled to duty drawback. Drawback shipping bill or bill of exports is the document to be filed with the land customs authorities for export of goods, which are entitled to drawback. DEPB shipping bill is used when the goods are

Notes

exported under DEPB scheme. Shipping Bill for shipment ex-bond is for use in case of imported goods for re-exports, which are kept in bond.

The following documents are required for processing the shipping bill:

- GR forms in duplicate for shipment to all countries.
- Four copies of packing list giving contents, gross and net weight of each packet.
- Four copies of invoices indicating all relevant particulars such as number of packages, quantity, unit rate, total fob/cif value, correct and full description of goods.
- Contract, letter of credit and purchase order.
- Inspection/examination certificate.

The formats presented for the shipping bill are as under:

- White shipping bill for export of duty-free goods prepared in triplicate in the standardised format.
- Green shipping bill for export of goods under duty drawback prepared in quadruplicate.
- Yellow shipping bill for export of dutiable goods prepare in triplicate.
- Pink shipping bill for export of duty-free goods ex-bond prepared in triplicate.
- Blue shipping bill for exports under DEPB scheme prepared in seven copies.

Appraisal by the Customs Authorities

The customs appraisal/examiner examines shipping documents and appraises the value having regard to the following consideration:

- That the value and quantity declared in the shipping bill is the same as in the export order/letter of credit.
- That the formalities regarding exchange control, pre-shipment quality control inspection, etc. have been duly completed. After examination of documents and appraisal of value, the customs examiner/appraiser makes an endorsement on the duplicate copy of the shipping bill giving directions to the dock appraiser about the extent of physical examination of the cargo to be conducted at the docks. All the documents except GR form in original, the original shipping bill and the copy of the commercial invoice are returned to the forwarding agent to be presented to the dock appraiser.

13.3.3 Other Documents

Following are the other documents:

- ***Commercial invoice:*** This is the basic document in an export transaction. All other documents are prepared with the help of information contained in such invoice. It contains the information as description of goods, price charged, quantity of commodities, various costs charged, terms of shipment, number of packages contained in the merchandise and marks/codes. The date of invoice, names and address of buyers and sellers, name of shipping vessel and the port of destination should also be indicated in the Bill.
- ***Consular invoice:*** Consular Invoice is a document mainly required by the Latin American countries, Kenya, Uganda, Tanzania, Mauritius, New Zealand, Myanmar, Iraq, Australia, Fiji, Cyprus, Nigeria, Ghana and Zanzibar. This invoice is the most important document, which needs to be submitted for certification to the embassy of the country concerned. The

Notes

exporter has to pay to the embassy concerned fee for the certification of this invoice. The consular invoice is required to be prepared in a prescribed format and it should be singed/ certified by the consular of the importing country located in the country of export. The main purposes of the consular invoice are to enable the importer's country to collect accurate and authenticated information about the value, volume, quality and source, etc. of the import for assessing import duties and for other statistical purposes. It helps the importer to get the goods cleared through the customs without any undue delay.

- ***Customs invoice:*** Countries like USA and Canada require customs invoice for their customs valuation. The exporter has to submit the invoice in the prescribed form in such cases. On the basis of the privet charged, as per the agreement, the commercial invoice may be of different types (a) fob invoice (b) C&F invoice (c) cif invoice (d) ex-ship price (e) Franco invoice.
- ***Legalised invoice:*** Some countries like Mexico require legalised invoice. It is not more different from the consular invoice as far as the aim of exporting countries is concerned. The only difference is that there is no prescribed form for obtaining the legalised invoice.
- ***Certified invoice:*** At times the exporter is called upon to certify on the invoice that the goods are of particular origin, have been manufactured/packed at a particular place and in accordance with a specific contract. When such certificates appear on the invoice, it is called certified invoice.
- ***Bill of exchange:*** When a draft bill is drawn on a foreign firm, it is termed as a foreign draft or bill of exchange. It is prepared either in an international currency or Indian rupee depending on the terms of contract. Accordingly, the bill is known by the name of currency in which it is drawn. For example, the bill drawn in US dollars is known as "Dollar Bill" and when prepared in rupees it is termed as "Rupee Bill". A bill of exchange or draft is of two types (a) "Sight Draft" and (b) "Usance Draft or Usance Bill". When a drawer, i.e. exporter, expects the drawee, i.e., importer, to make payment immediately after the draft is presented to him, it is called a sight draft. Where the exporter has agreed to give foreign buyer, he draws a usance bill, i.e. draft which is drawn for payment at a date later than the date of presentation.
- ***Proforma invoice:*** While talking about the above-mentioned invoices we should be clear about proforma invoice. This is the temporary commercial invoice prepared and sent by an exporter to the importer. It contains almost the same particulars as commercial invoice. The purpose of this invoice is to help the importer – (1) in getting an import license in his own country if so required and (2) in opening the letter of credit in favour of the exporter in his own country. The exporter should cultivate a habit of sending a proforma invoice even if the same is not demanded.
- ***Packing list:*** It is a list showing details of goods contained in each parcel/shipment. It shows item-by-item the contents of the containers or parcels shipped to enable the buyer/receiver of the shipment to check the shipment. Packing list has to be prepared in the aligned document form.
- ***Letter of credit:*** Letter of credit, popularly known as LC, is the most important form of export trade. It is a promise by the overseas importer through his banker where LC is opened by him to the exporter through his banker to pay the proceeds and receipt of documents certifying the shipment of goods. The exporter should carefully examine the terms and conditions of the LC to ensure that (i) he can meet them and (ii) they conform to the basic contract entered into with the importer.
- ***Marine insurance:*** It is the basic instrument in marine insurance. A marine insurance policy is a contract between the policyholder and the insurance company. It is also a legal

Notes

document of which can be produced in a court of law in case of any claim. The policy is generally taken at a time when the goods are ready for shipment unless otherwise advised by the importer. The exporter can use the policy as a co-lateral security when he wants an advance against his bank credit.

- ***Export licence:*** For controlled commodities and also for restricted and negative list terms, an export licence has to be obtained from Directorate General of Foreign Trade (DGFT).
- ***Certificate of inspection:*** In order to build up an image of Indian goods abroad, the Government of India has ensued pre-shipment and quality control inspection of the goods. Therefore, the exporter has to obtain an inspection certificate from DGFT.
- ***Certificate of origin:*** The Government of India has authorised the Export Council of India and its various agencies to issue the certificate of origin. The export promotion offices at Mumbai, Kolkata, Chennai, and Cochin, FIEO, Chambers of Commerce and the heads of the licensing offices have also been authorised to issue the certificate of origin.
- ***Generalised System of Preferences (GSP):*** Some countries, especially, the Commonwealth countries, and advanced countries of the world, which have given concession to developing countries under generalised system of preferences, require that the exporter must submit a certificate of origin. Thus, the exporter has to submit GR-I form, export licence, inspection certificate, consular invoice and certificate of origin. All these forms are known as regulatory documents.
- ***Certificate of chemical analysis:*** To ensure that the quality and grade of items like metallic ores, pigments and so on is the same as specified in the sale contract, importers may require exporters to send a certificate of chemical analysis from a recognised analyst.

13.3.4 Export Assistance Documents

A number of documents are needed to claim the various assistances under the export assistance schemes as may be in operation from time to time. Presently, these schemes are duty drawback scheme and packing credit facilities.

- ***Duty drawback scheme:*** An exporter is entitled certain duties free of cost, which are prevalent in the country. Under the duty drawback scheme, an exporter is reimbursed customs duty, octroi duty, sales tax, excise and so on in case he has paid it. As an incentive, the government gives duty drawback to various commodities/products, which are exported. The rates of duty drawback are given separately on a per cent basis of the goods exported. These rates change from time to time and are notified by the commerce ministry. The duty drawback is claimed after the goods have been exported.
- ***Packing credit facilities:*** The government has given packing credit facilities to exporters in terms of pre-shipment credit and post shipment credit. In the case of pre-shipment credit, an exporter is entitled to credit from his commercial bank for the manufacture and the packaging of his goods. This credit is given to him on a reduced rate of interest. Beside this, he can claim duty drawback credit also in the pre shipment credit. In the post shipment credit, an exporter is entitled to credit from his commercial bank after the goods have been shipped and document negotiated with the bank. In the post shipment credit, he gets the balance of pre-shipment credit and the duty drawback if not already claimed.
- ***Foreign documentation:*** Certain documents are required by the importer to satisfy his government's requirements. These are obtained by the export in his country and submitted to the importer for the purpose. These include certificate of origin, consular invoice, quality control certificate and so on.

Notes

- ***Certificate of origin:*** These certificates, as the name implies, are documents which certify the place of origin of the merchandise. This certificate is required by Commonwealth countries and also by those developed countries, which have offered concessions to the developing countries under the GSP. This certificate can be obtained by the authorised agencies. The Government of India has authorised Federation of Indian Chamber of Commerce and Industry (FICCI), the Export Promotion Council (EPC) and various other trade associations to issue certificates of origin.

Task Find some specimen of some of the above mentioned documents.

Self Assessment

Fill in the blanks:

7. An Airway Bill has three original copies in different colours namely……..
8. …….is a document acknowledged by the shipping company that goods o be exported are shipped on board.
9. ……..is issued for export of good that don't attract any duty or are not entitled to duty drawback.
10. C7F Invoice, Ex-ship Price, Fob Invoice and Franco Invoice are all types of……..
11. An exporter is entitled to credit form his commercial bank after the goods have been shipped and document have been negotiated with the bank, in case of……..
12. …….is required by the Commonwealth countries.
13. ……..is needed for export controlled commodities.
14. Proforma Invoice is just a…….invoice.

13.4 Export Documentation Requirements in India

Export documentation in India has evolved a great deal particularly since 1990. Efforts are on, on a faster footing to streamline and modernize the system further (see box 13.1). Prior to 1990, the documentation was all manual and not at all coordinated. The result was lot of delays and mistakes, rendering the task very clumsy, tiresome, repetitive and truly frustrating. India adopted the ADS in 1991. ADS refer to Aligned Documentation System, which is the internationally accepted documentation system.

Did u know? ADS uses a Master Document that contains the information common to all documents forming part of the aligned series.

Box 13.1: Right Click for Fast Delivery

To cut transaction time and costs for exports, which are about five times that of China, commerce and industry ministry announced several measures including a drastic trimming in the number of forms to be filled from 120 pages to 50 pages. The new set — Aaayat Niryaat—has been introduced by DGFT.

Contd...

Notes

Union Commerce Minister Kamal Nath said this was in keeping with his promise made in 2006 that exporters and importers would be spared from filing multiple application forms at various stages.

He said a committee, set up under chairmanship of DGFT, had submitted its report. "We shall be implementing them," he said.

Electronic Data Interface (EDI) linkage will be ensured among all trade partners, like DGFT, customs, banks, export promotion councils, to facilitate online filing, verification and retrieval of documents.

A fast-track mechanism is being introduced for clearance, packaging, quarantine, etc., to facilitate import and export of perishable cargo. Time limits will be laid down for approvals/sanctions to ensure transparency in government departments and to ensure quality of service.

Moving towards an "automated electronic environment", the global trading community can now reach for a single source for all policy-related information, which will be available on the DGFT site. Video conferencing will replace manual filing of documents. This will be done via digital signatures. A special-purpose vehicle for electronic license use and transfer mechanism is being planned.

A six-month timeframe has been set for the customs and DGFT to complete EDI linkages. Once done, manual submission of shipping bills and other documents will be a thing of the past. Online verification will reduce transaction costs and time.

An Importer Exporter Code (IEC) number will be issued online. Linking the DGFT database with the income-tax PAN database, by using digital signatures, will do this.

Other e-governance initiatives are also being planned. The effort is to reduce human interface with DGFT offices.

Source: The Financial Express, April 8, 2005 & www.financialexpress.com

Export documentation plays a vital role in international marketing as it facilitates the smooth flow of goods and payments thereof across national frontiers. A number of documents accompany every shipment. These documents must be properly and correctly filled. Export documentation is, however, complex as the number of documents to be filled in is large, so also is the number of concerned authorities to whom the relevant documents are to be submitted. Moreover documents required differ from country to country.

Incorrect documents may lead to non-delivery of goods to the importer. You may get the correct documents after some time but in the meantime storage charges may have to be paid. More important, the importer will think twice before importing from the same exporter.

It is therefore, advisable to take the help of shipping and forwarding agents who will obtain fill out the documents correctly as well as arrange for transportation. But every exporter should have an adequate knowledge about export documents and procedures.

On the basis of the functions to be performed, export documents can be classified under four categories:

1. ***Commercial Documents:*** These include commercial invoices, bills of exchange bills of lading, letters of credit, marine insurance policy and certificates.
2. ***Regulatory Documents:*** These are the documents which are required for complying with the rules and regulations governing export trade transactions such as foreign exchange regulations, customs formalities export inspection, etc.

Notes

3. ***Export Assistance Documents:*** These are the documents which are required for claiming assistance under the various export assistance measures as may be in operation from time to time. Presently these refer to drawbacks of Central excise and customs duties, packing credit facilities, etc.

4. ***Documentation required by importing Countries.*** These are the documents which are required by the importer in order to satisfy the requirements of his government. These include certificates of origin, consular invoice, quality control certificate, etc.

Export documents could be classified into two categories depending upon the specific requirements satisfied by them: (1) Regulatory and (2) Operational.

1. ***Regulatory Requirements:*** An exporter has to follow strictly the regulation of both the exporting country as well as that of the importing country.

Example: There is exchange control in India.

Therefore when we export goods, we have to give an undertaking to the RBI that we shall realize the foreign exchange in lieu of the goods exported. We do this by submitting GR form, and it is obvious that we cannot export unless we submit this document. Then there are certain commodities which are subject to export regulation. We have to obtain a licence for exporting the controlled commodities. Thus, another document has necessarily to be used. In order to build up an image of Indian goods abroad there is a system of compulsory pre-shipment inspection and quality control of a number of export goods. The exporter has to obtain an inspection certificate. This gives rise to still another document. There are a number of importing countries which stipulate that the exporter must submit certain specified documents duly certified by their missions in the exporting country. This condition makes it essential the use of the consular invoice and in some cases the use of the legalized invoice. There are countries specially the Commonwealth countries and also those developed countries which have offered concessions to the developing countries under the Generalized System of Preferences which demand that the exporters must submit a certificate of origin. Thus, the exporter has to submit GR form, export licence inspection certificate, consular invoice, legalized invoice and certificate of origin. These are examples of regulatory documents.

2. ***Operational Requirements:*** The customs authorities are charged with the responsibility of verifying compliance on the part of the exporters with all types of regulations in force in the country. For their own record purposes, they have devised the Shipping bill. No shipping company or airline will accept any export cargo unless the customs authorities have granted their permission on the shipping bill. Along with the shipping bill, commercial invoices and packing lists are also to be submitted.

Task Visit a seaport closest to you and talk to the customs officials there. Make a list of common errors that exporters usually make in their export documents. Also find out the possible consequences of such errors.

Self Assessment

Fill in the blanks:

15. An ..... has to follow strictly the regulation of both the exporting country as well as that of the importing country.

Notes

16. The customs ..... are charged with the responsibility of verifying compliance on the part of the exporters with all types of regulations in force in the country.

Case Study

Letter of Credit Risk Management

Before the outbreak of the Second Gulf War, a Naijing Company sold 2000 tons ethotic plastics (worth 2.18 million USD) to a Singapore company. After the contract was sealed, the seller received the letter of credit from the buyer and then made the delivery according to the article of the contract. What is unexpected is that the Gulf War did not set the price of the oil products soaring, instead, the price plummeted. After receiving the goods, the buyers claimed that the goods are defective; therefore, it asked for a 200 dollar price cut. Otherwise, they would refuse to pay. However, when the buyer submitted the letter to the bank, there is no consistency within the letter of the credit. And the bank did not reject the documents or refuse to pay until 11 days later. And according to above situations, buyers choose to sue the bank, and as a result, the Supreme Court of the Singapore rules in favour of the seller

In this case, the contract stipulated that the payment shall be made according to the irrevocable sight letter of credit. In accordance with the provisions of the Uniform Customs and Practice for Documentary Credits, in the letter of credit business, the bank processes only documents, not related goods and documents. Therefore, so as long as the documents are consistent, the bank should make payment according to vouchers. In this case, when the seller submitting the documents to the bank, there is no discrepancy at all, therefore, the banks have no reason to refuse to pay the purchase price.

According to general practice, when the documents are inconsistent with each other, the bank should notify the customer as soon as possible. According to the Singapore jurisprudenc, the bank should reject the documents in 3-4 days notice to customers. In this case, the bank refused to accept the documents and pay the purchase price 11 days after it received the documents, which is clearly inconsistent with the general practice and local precedents.

It should be noted that in this case the buyer demanded for lower prices on the grounds the quality of the goods are inferior, and asserted that it would refuse to make the payment if the seller would not lower the price, under this circumstances, the seller has not bring a lawsuit with the buyer, instead it choose to prosecute the bank. And as its claim is well justified, the results is in favour of the seller. It is the proof that its decision is wise and its approach effective.

Questions

1. Pen down your views on the above case study.
2. Highlight the important facts of the case study.

Source: http://www.chinaimportexport.org/case-study-letter-of-credit-risk-management/

13.5 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- Export documents have to be prepared for various purposes like declaration of export as per exchange control regulations of the country, transportation of goods, customs clearance of the goods and other purposes.

Notes

- GR Form is used for exports to all countries made other than by post. The duplicate copy of the form is submitted to the negotiating bank along with other documents after shipment of the goods.
- Softex is used for export of computer software in non-physical form. Export declaration forms have utmost importance and are binding on the exporter.
- Shipping Bill is the main document required by the customs authorities for allowing shipment. The shipping bill is used for export of goods, which neither attract any duty/ cess nor are entitled to duty drawback on their exportation.
- Drawback shipping bill or bill of exports is the document to be filled with the land customs authorities for export of goods, which are entitled to drawback. DEPB shipping bill is used when the gods are exported under DEPB scheme.
- White shipping bill for export of duty free goods is prepared in triplicate in the standardised format. Green shipping bill for export of goods under duty drawback is prepared in quadruplicate.
- Yellow shipping bill for export of dutiable goods is prepared in triplicate. Pink shipping bill for export of duty-free goods ex-bond is prepared in triplicate. Blue shipping bill for exports under DEPB scheme is prepared in seven copies.
- Commercial Invoice is the basic document in an export transaction. Other invoices are counsellor invoice, customs invoice and legalised invoice.
- Duty drawback is claimed after the goods have been exported. The government has given packing credit facilities to exporters in terms of pre-shipment credit and post shipment credit.
- In the post shipment credit, an exporter is entitled to credit from his commercial bank after the goods have been shipped and document negotiated with the bank.

13.6 Keywords

Bill of Exchange: A draft bill is drawn on a foreign firm.

Bill of Lading: A document which is issued by the shipping company acknowledging that the goods mentioned therein have been placed on board, the ship, and an undertaking that the goods in like order and condition as received, will be delivered to the consignee, provided that the freight specified therein has been duly paid.

Certificate of Inspection: This is the certificate issues by the EIA after it has conducted the pre-shipment inspection of goods for export provided the goods fall under the notified category of goods requiring compulsory pre-shipment inspection.

Commercial Invoice: It contains the complete details of the export order right from order number to quantity, rate, packaging, made of dispatch and shipping particulars.

GR Form: A declaration form used for exports to all countries made otherwise than by post.

***Letter of Credit*:** It is a promise by the overseas importer through his banker to pay the proceeds and receipt of documents certifying the shipment of goods.

Packing List: It provides the details of number of packages, quantity packed in each of them, the weight and measurement of each package and the net and gross weight of the total consignment.

Shipping bill: It is the main document required by the customs authorities for allowing shipment.

Shipping Instructions: This document serves as a checklist of the exporter's instructions to the shipping company regarding a particular shipment.

Notes

13.7 Review Questions

1. What are export documents and why are they important?
2. What are declaration forms?
3. Discuss the various documents required for transportation of goods.
4. What is shipping bill? What documents are required while processing a shipping bill?
5. Write short notes on the following:
   (a) Bill of Exchange
   (b) Letter of Credit
   (c) GSP
   (d) Certificate of Origin
   (e) Consular Invoice
6. Describe the export documentation framework in India in details. How do you think has ADS helped the cause?
7. Explain the significance of Commercial Invoice in an export transaction. Discuss the various types of invoices that the importing countries may require.

Answers: Self Assessment

1.	True	2.	False
3.	True	4.	False
5.	False	6.	True
7.	Green, Pink and Blue	8.	Bill of Lading
9.	Shipping Bill	10.	Custom/Commercial
11.	Post Shipping Credit	12.	Certificate of Origin
13.	Export Licence	14.	Temporary
15.	Exporter	16.	Authorities

13.8 Further Readings

Books

Cateora and Graham, *International Marketing*, McGraw Hill, 2007

Charles W.L. Hill, *International Business Competing in the Global Marketplace*, 4th Edition, Tata McGraw-Hill Publishing Company Limited

Chase Richard, Jacob Robert, Aquillano and Agarwal Nitin, *Operations Management*, 11th Edition, Tata McGraw-Hill Publishing Company Limited

Justin Paul, *International Business*, 3rd Edition, Prentice Hall of India

Vasudeva, PK, *International Marketing*, Excel Books, New Delhi, 2010

Notes

Online links

agriexchange.apeda.gov.in/.../export_documentation.aspx

http://www.unzco.com/basicguide/c1.html

http://www.eximguru.com/exim/guides/how-to-export/ch_17_export_documents.aspx

http://www.slideshare.net/birubiru/export-documents-procedure-7052281

http://download-reports.blogspot.in/2011/05/export-procedure-in-pakistan.html

Notes

Unit 14: Global E-Marketing and EDI

CONTENTS

Objectives

Introduction

14.1 Global Perspectives

14.2 The Pervasive Impact of Culture on Negotiation Behaviour

14.2.1 Implications for Managers and Negotiators

14.2.2 Negotiations with Interest to Customers

14.3 Cultural Differences

14.3.1 Differences in Language and Non-verbal Behaviours

14.3.2 Differences in Values

14.3.3 Differences in Thinking and Decision Making Process

14.4 The Negotiation Orientations Framework: Defining the Dimensions

14.4.1 Basic Concept of Negotiation: Distributive versus Integrative

14.4.2 Most Significant Type of Issue: Task versus Relationship

14.4.3 Selection of Negotiators: Abilities versus Status

14.4.4 Influence of Individual Aspirations: Individualist versus Collectivist

14.4.5 Internal Decision-making Process: Independent versus Majority Rule

14.4.6 Risk-Taking Propensity: Risk Averse versus Risk Tolerant

14.4.7 Basis of Trust: External to the Parties versus Internal to the Relationship

14.4.8 Concern with Protocol: Formal versus Informal

14.4.9 Style of Communication: High Context versus Low Context

14.4.10 Nature of Persuasion: Factual-Inductive versus Affective

14.4.11 Form of Agreement: Explicit Contract versus Implicit Agreement

14.5 Global E-Marketing and EDI

14.5.1 Benefits of Global E-Marketing

14.5.2 Factors influencing Strategy creation

14.5.3 Electronic Data Interchange Strategy Creation

14.6 Summary

14.7 Keywords

14.8 Review Questions

14.9 Further Readings

Notes

Objectives

After studying this unit, you will be able to:

- Describe Global Perspectives
- Explain the Pervasive Impact of Culture on Negotiation Behaviour
- Discuss Cultural Differences
- Elaborate the Negotiation Orientations Framework

Introduction

Cultural differences can complicate, prolong, and even frustrate international negotiations. In an ideal world, skilled negotiators would come to the table with deep knowledge and familiarity with the culture and negotiation orientations of their counterparts; however, the pace and pressures of global business make this highly unlikely. Consequently, a framework that focuses on key dimensions of the international negotiation context and process can serve as a valuable tool in assisting negotiators and researchers alike in identifying potential points of conflict. The Negotiation Orientations Framework provides perhaps the most comprehensive approach to date for systematic comparison of national cultural differences in negotiations.

14.1 Global Perspectives

It is not so much that speaking only English is a disadvantage in international business. Instead, it's more that being bilingual is a huge advantage Observations from sitting in on an aisatsu (a meeting or formal greeting for high-level executives typical in Japan) involving the president of a large Japanese industrial distributor and the marketing vice president of an American machinery manufacturer are instructive. The two companies were trying to reach an agreement on a long-term partnership in Japan.

Business cards were exchanged and formal introductions made. Even though the president spoke and understood English, one of his three subordinates acted as an interpreter for the Japanese president. The president asked everyone to be seated. The interpreter sat on a stool between the two senior executives. The general attitude between the parties was friendly but polite. Tea and a Japanese orange drink were served.

The Japanese president controlled the interaction completely, asking questions of all Americans through the interpreter. Attention of all the participants was given to each speaker in turn. After this initial round of questions for all the Americans, the Japanese president focused on developing a conversation with the American vice president. During this interaction an interesting pattern of non-verbal behaviours developed. The Japanese president would ask a question in Japanese. The interpreter then translated the question for the American vice president. While the interpreter spoke, the American's attention (gaze direction) was given to the interpreter. However, the Japanese president's gaze direction was at the American. Thus the Japanese president could carefully and unobtrusively observe the American's facial expressions and non-verbal responses. Conversely, when the American spoke the Japanese president had twice the response time. Because the latter understood English, he could formulate his responses during the translation process.

Face to face negotiations are an omnipresent activity in international commerce.

Notes

Notes Once global marketing strategies have been formulated, marketing research has been conducted to support those strategies and once product service, pricing, promotion, and place decisions have been made then the focus of managers turns to implementation of the plans.

In international business such plans are almost always implemented through face to face negotiations with business partners and customers from foreign countries. The sales of goods and services, the management of distribution channels, the contracting for marketing research and advertising services, licensing and franchise agreements and strategies alliances all require managers of different cultures to sit and talk with one another to exchange ideas and express needs and preferences.

Did u know? Face-to-Face Negotiation Theory is a theory first proposed by Stella Ting-Toomey in 1985 to understand how different cultures throughout the world respond to conflict.

Executives must also negotiate with representatives of foreign governments who might approve a variety of their marketing actions or in fact be the actual ultimate customer for goods and services. In many countries governmental officials may also be joint venture partners and in some cases vendors.

Example: Negotiation for the television broadcast rights for the 2008 Summer Olympics in Beijing China, included NBC the international Olympic Committee and Chinese governmental officials.

Some of these negotiations can become quite complex, involving several governments, companies and culture.

Good examples are the European and North American talks regarding taxing the Internet, the on going interactions regarding global environmental issues or the ongoing WTO negotiations begun in Doha Qatar in 2001. All these activities demand a new kind of business diplomacy.

One authority on international joint ventures suggests that a crucial aspect of all international commercial relationships is the negotiation of the original agreement. The seeds of success or failure often are sown at the negotiation table vis-à-vis (face to face) where not only financial and legal details are agreed to but perhaps more importantly the ambience of cooperation is established. Indeed the legal details and the structure of international business ventures are almost always modified over time usually through negotiation. But the atmosphere of cooperation initially established face to face at the negotiations table persist or the venture fails.

Self Assessment

State whether the following statements are true or false:

1. Speaking only English is a huge disadvantage in international business.
2. Face to face negotiations are a minor activity in international commerce.
3. The Negotiation Orientations Framework provides perhaps the most comprehensive approach to date for systematic comparison of national cultural differences in negotiations.

Notes

14.2 The Pervasive Impact of Culture on Negotiation Behaviour

The primary purpose of this section is to demonstrate the extent of cultural differences in negotiation styles and how these differences can cause problems in international business negotiations. The material in this section is based on a systematic study of the topic over the last two decades in which the negotiation styles of more than 1,000 businesspeople in 16 countries (19 cultures) were considered. The countries studied were Japan, Korea, Taiwan, China (Tianjin,. Guangzhou, and Hong Kong), the Philippines, Russia, Norway, the Czech Republic, Germany, France, the United Kingdom, Spain, Brazil, Mexico, Canada (English-speaking and French-speaking), and the United States. The countries were chosen because they constitute America's most important present and future trading partners.

Looking broadly across the several cultures, two important lessons stand out. The first is that regional generalizations very often are not correct. For example, Japanese and Korean negotiation styles are quite similar in some ways, but in other ways they could not be more different. The second lesson learned from this study is that Japan is an exceptional place: On almost every dimension of negotiation style considered, the Japanese are on or near the end of the scale. Sometimes, Americans are on the other end. But actually, most of the time Americans are somewhere in the middle. The reader will see this evinced in the data presented in this section. The Japanese approach, however, is most distinct, even sui generis.

14.2.1 Implications for Managers and Negotiators

Four steps lead to more efficient and effective international business negotiations, which include:

1. selection of the appropriate negotiation team
2. management of preliminaries, including training, preparations, and manipulation of negotiation settings
3. management of the process of negotiations, that is, what happens at the negotiation table
4. appropriate follow-up procedures and practices

14.2.2 Negotiations with Interest to Customers

Criteria for selecting successful negotiators include:

1. Maturity
2. Emotional stability
3. Breadth of knowledge
4. Optimism
5. Flexibility
6. Empathy
7. Stamina
8. Willingness to use team assistance
9. Listening
10. Influence at headquarters

For negotiations to result in positive benefits for all sides, the negotiator must define what the problem is and what each customer wants. In defining the goals of negotiation, it is important to distinguish between issues, positions, interests and settlement options.

Notes

- An issue is a matter or question parties disagree about. Issues can usually be stated as problems. For example, "How can wetlands be preserved while allowing some industrial or residential development near a stream or marsh?" Issues may be substantive (related to money, time or compensation), procedural (concerning the way a dispute is handled), or psychological (related to the effect of a proposed action).
- Positions are statements by a customer about how an issue can or should be handled or resolved; or a proposal for a particular solution. A disputant selects a position because it satisfies a particular interest or meets a set of needs.
- Interests are specific needs, conditions or gains that a party must have met in an agreement for it to be considered satisfactory. Interests may refer to content, to specific procedural considerations or to psychological needs.
- Settlement Options – possible solutions which address one or more customer's interests. The presence of options implies that there is more than one way to satisfy interests.

The negotiator will need to select a general negotiation approach. There are many techniques, but the two most common approaches to negotiation are positional bargaining and interest-based bargaining. The list of reasons for choosing to negotiate is long. Some of the most common reasons are to:

- Gain recognition of either issues or customers;
- Test the strength of other customers;
- Obtain information about issues, interests and positions of other customers;
- Educate all sides about a particular view of an issue or concern;
- Ventilate emotions about issues or people;
- Change perceptions;
- Mobilize public support;
- Buy time;
- Bring about a desired change in a relationship;
- Develop new procedures for handling problems;
- Make substantive gains;

Self Assessment

Fill in the blanks:

4. Managers and ..... must need to appropriate follow-up procedures and practices.
5. Negotiators must have Emotional .....
6. Regional generalizations very often are not .....

14.3 Cultural Differences

Cultural differences cause four kinds of problems in international business negotiations, at the levels of:

1. Language
2. Non-verbal behaviours

Notes

3. Values

4. Thinking and decision-making processes

The order is important; the problems lower on the list are more serious because they are more subtle. For example, two negotiators would notice immediately if one were speaking Japanese and the other German. The solution to the problem may be as simple as hiring an interpreter or talking in a common third language, or it may be as difficult as learning a language. Regardless of the solution, the problem is obvious. Cultural differences in non-verbal behaviours, on the other hand, are almost always hidden below our awareness. That is to say, in a face-to-face negotiation participants non-verbally—and more subtly give off and take in a great deal of information. Some experts argue that this information is more important than verbal information. Almost all this signalling goes on below our levels of consciousness. When the non-verbal signals from foreign partners are different, negotiators are most apt to misinterpret them without even being conscious of the mistake. For example, when a French client consistently interrupts, Americans tend to feel uncomfortable without noticing exactly why. In this manner, interpersonal friction often colours business relationships, goes undetected, and, consequently, goes uncorrected. We discuss these differences here, starting with language and non-verbal behaviours.

Caution Differences in values and thinking and decision-making processes are hidden even deeper and therefore are even harder to cure

14.3.1 Differences in Language and Non-verbal Behaviours

Americans are clearly near the bottom of the languages skills list, although Australians assert that Australians are even worse. It should be added; however, that American under-grads recently have begun to see the light and are flocking to language classes and study abroad programs. Unfortunately, foreign language teaching resources in the United States are inadequate to satisfy the increasing demand. In contrast, the Czechs are now throwing away a hard-earned competitive advantage: Young Czechs will not take Russian anymore. It is easy to understand why, but the result will be a generation of Czechs who cannot leverage their geographic advantage because they will not be able to speak to their neighbours to the east.

Did u know? The American office environment is informal, and there is no apparent hierarchy between managers and their subordinates. Employees are treated as equals and independent views are welcomed.

The language advantages of the Japanese executive in the description of the aisatsu that opened the chapter were quite clear. However, the most common complaint heard from American managers regards foreign clients and partners breaking into side conversations in their native languages. At best, it is seen as impolite, and quite often American negotiators are likely to attribute something sinister to the content of the foreign talk—"They're plotting or telling secrets."

14.3.2 Differences in Values

Values such as – objectivity, competitiveness and equality – are held strongly and deeply by most Americans seem to frequently cause misunderstandings and bad feelings in international business negotiations.

Notes

Objectivity: "Americans make decisions based upon the bottom line and on cold, hard facts." "Americans don't play favourites." "Economics and performance count, not people." "Business is business." Such statements well reflect American notions of the importance of objectivity.

The single most important book on the topic of negotiation, Getting to Yes, is highly recommended for both American and foreign readers. The latter will learn not only about negotiations but, perhaps more important, about how Americans think about negotiations. The authors are quite emphatic about "separating the people from the problem," and they state, "Every negotiator has two kinds of interests: in the substance and in the relationship" This advice is probably quite worthwhile in the United States or perhaps in Germany, but in most places in the world such advice is nonsense. In most places in the world, particularly in relationship-oriented cultures, personalities and substance are not separate issues and cannot be made so.

Example: Consider how important nepotism is in Chinese or Hispanic cultures. Experts tell us that businesses don't grow beyond the bounds and bonds of tight family control in the burgeoning "Chinese Commonwealth." Things work the same way in Spain, Mexico, and the Philippines by nature. And, just as naturally, negotiators from such countries not only will take things personally but will be personally affected by negotiation outcomes: What happens to them at the negotiation table will affect the business relationship regardless of the economics involved.

Competitiveness and Equality: Simulated negotiations can be viewed as a kind of experimental economics wherein the values of each participating cultural group are roughly reflected in the economic outcomes. The simple simulation used in our studies represented the essence of commercial negotiations—it had both competitive and cooperative aspects. At least 40 businesspeople from each culture played the same buyer-seller game, negotiating over the prices of three products. Depending on the agreement reached, the "negotiation pie" could be made larger through cooperation (as high as $10,400 in joint profits) before it was divided between the buyer and seller.

14.3.3 Differences in Thinking and Decision Making Process

When faced with a complex negotiation task, most Westerners (notice the generalization here) divide the large task up into a series of smaller tasks. Issues such as prices, deliv-ery, warranty, and service contracts may be settled one issue at a time, with the final agreement being the sum of the sequence of smaller agreements. In Asia, however, a dif-ferent approach is more often taken wherein all the issues are discussed at once, in no apparent order, and concessions are made on all issues at the end of the discussion. The Western sequential approach and the Eastern holistic approach do not mix well.

That is, American managers often report great difficulties in measuring progress in Japan. After all, in America, you are half done when half the issues are settled. But in Japan, nothing seems to get settled. Then, surprise, you are done. Often, Americans make unnecessary concessions right before agreements are announced by the Japanese. For example, one American department store buyer traveling to Japan to buy six different consumer products for his chain lamented that negotiations for his first purchase took an entire week. In the United States, such a purchase would be consummated in an after-noon. So, by his calculations, he expected to have to spend six weeks in Japan to com-plete his purchases. He considered raising his purchase prices to try to move things along faster. But before he was able to make such a concession, the Japanese quickly agreed on the other five products in just three days. This particular businessman was, by his own admission, lucky in his first encounter with Japanese bargainers.

Notes

Task Study the office culture and the business ethics followed in Japan.

Self Assessment

Fill in the blanks:

7. Cultural differences causes for kind of problems namely: ....., Non-verbal behaviours, ..., Thinking and decision-making processes.
8. When faced with a ..... negotiation task, most Westerners divide the large task up into a series of smaller tasks.
9. Breaking into side conversations in their native languages is considered as .....

Caselet

Dell a Caselet of Intermediation

Disintermediation is not a new phenomenon. As far as Dell is concerned it began in 1983 when Michael Dell used the direct sales model, first by telephone and catalogue via Dell Direct, then, in July 1996, via its electronic site, Dell online. Founder Michael Dell's original idea was simple: sell computers directly, bypassing IT distributors. This disintermediation meant the company could avoid retail margins, make computers on demand, and lower the costs of stocking the finished product. Cutting the time lapse between production and delivery to the end customer is an undeniable advantage in an area where prices for components change rapidly and innovation seems ever present and exponential. If this new configuration gives Dell a key cost advantage and greater flexibility in terms of its formula, other factors reinforce its capacity to compete. Dell's virtual integration combines the wise use of IT with the systematic subcontracting of low added-value elements of the business. This combination has enabled it to gain from the dual advantages of coordination among the links of the value chain and a level of flexibility that comes with a virtual company.

Dell Computers as a manufacturing company gains efficiency by working closely with key suppliers to eliminate having to carry any inventory. Dell requires its suppliers of PC components to locate their inventory within 15 minutes of its factory. Dell also outsources with third-party warehouses that specialize in running technology driven supply chains. On the logistics side, Dell links with UPS to store and deliver a specified monitor with the computer. Dell computer targets large corporate customers that order large quantities of PCs frequently, and the second and third time buyers of household PCs who do not need extensive sales information.

Source: http://wps.pearsoned.co.uk/ema_uk_he_hollensen_globalmark_4/64/16425/4204992.cw/index.html

14.4 The Negotiation Orientations Framework: Defining the Dimensions

Refinements in the definition of the dimensions in the framework are presented below. Precise definitions provide the basis of good measurement and the means by which subsequent research findings can be compared and synthesized?

Notes

14.4.1 Basic Concept of Negotiation: Distributive versus Integrative

Basic Concept of Negotiation refers to how each party views the negotiating process. A bipolar continuum, with distributive bargaining and integrative problem solving as endpoints, is consistent with R.E. Walton and Robert B. McKersie.

Distributive Perspective: The assumption underlying distributive bargaining strategies is that one party gains at the expense of the other. Negotiators fitting this profile believe that there will be one winner and one loser, assume that their interests directly conflict with those of the other party, seek to meet only their own goals or interests in order to maximize the benefit for their side, and focus on the need for the other party to concede. The prevailing belief is "what is good for the other party must be bad for us."

Integrative Perspective: The assumption underlying integrative bargaining strategies is that there is opportunity for both parties to gain from a negotiated agreement because they place different values on the issues being negotiated and can find effective trade- offs by conceding less important issues to gain on more important ones. Integrative negotiation involves both cooperation to expand the pie and competition to divide the pie between the two parties. Negotiators fitting this profile believe that win-win solutions can be generated, employ a problem-solving approach to develop solutions that expand the size of the rewards available to everyone, and attempt to understand the underlying issues and their relative importance to both parties in order to capitalize on the different interests of both parties and to find effective trade-offs.

14.4.2 Most Significant Type of Issue: Task versus Relationship

The most significant type of issue refers to the types of issues negotiators spend more time discussing. Although negotiators may be concerned with both task and relationship in a negotiation, they are likely to emphasize one over the other.

Task: Negotiators with a task frame focus on specific issues having to do with the project at hand and view these issues as being external to the relationship. Negotiators who believe that task issues are more important tend to focus the entire negotiation on the deal being discussed and not so much on the people involved in the discussions.

Relationship: Negotiators with a relationship frame view task-related issues as being inseparable from the relationship. They devote time to activities that build trust and friendship between the members, believing that this provides a foundation for addressing task issues! Negotiators who believe that the relationship is primary tend to focus the entire negotiation on the people involved in the discussions and not so much on the deal being discussed.

14.4.3 Selection of Negotiators: Abilities versus Status

Selection of Negotiators refers to the criteria used to select members of the negotiating team. Achievement-based people evaluate and relate to others based on what they have accomplished; status-based people evaluate and relate to others based on who they are.

Abilities: People with an achievement-based view believe members of a negotiating team should be selected because they possess certain job-related skills or because they have expertise that will be useful during the course of the negotiations. Examples of relevant skills or expertise include education, technical or scientific knowledge, legal training, vocational achievement, negotiating experience, or language fluency.

Status: People with a status-based view believe members of a negotiating team should be selected because of who they are and whom they know. Examples of relevant characteristics

Notes

include family background, influential connections, seniority, age, or gender. Negotiators from status-based cultures may be senior, high-ranking officials, who wield considerable influence in their organizations and who may also command great respect in the community at large.

14.4.4 Influence of Individual Aspirations: Individualist versus Collectivist

Influence of Individual Aspirations refers to the emphasis negotiators on the achievement of individual goals and the need for individual recognition.

Individualist: Harry C. Triandis defines individualists as people who see themselves as loosely linked to and independent of others. They are motivated primarily by their own preferences, needs, and rights and they give priority to their personal goals. From this, we can describe individualist negotiators as being emotionally independent from the organization to which they belong and as striving to achieve outcomes that are in their own best interests.

Caution They may also keep the organization's interests and goals in mind, but will do so because they expect personal reward and recognition for their decisions.

Collectivist: Triandis defines collectivists as people who see themselves as closely linked to and pans of groups of co-workers or a company, for example 3D. They give priority to the goals of the collective. From this, we can describe collectivist negotiators as strongly identifying with and being loyal to their organizations; consequently, they may strive to achieve outcomes that are in the organization's best interest and may do so with no expectation of personal recognition or gain. The negotiating team may assume joint responsibility and/or receive joint recognition for actions taken or decisions made.

14.4.5 Internal Decision-making Process: Independent versus Majority Rule

Internal Decision-making Process refers to the manner in which a negotiating team reaches decisions. Jeanne M. Brett identifies a range of decision-making behaviours, where either one person on the team has the authority to make the decision or a large proportion of the team's members must agree to a particular decision.

Independent: Leaders or other influential individuals on the negotiating team may make decisions independently without input from others on the team.

Majority Rule: Decision-making power is delegated to the entire team. The team leader seeks input and support from team members and listens to their advice. Orientation toward ***Time:*** Monochronic versus Polychronic Orientation toward Time refers to the value that negotiators place on time. Edward T. Hall and Mildred Reed Hall defined two culturally derived concepts of time that are important to international business.

Monochronic: People whose orientation toward time monochronic pay attention is to and handle tasks one at a time, plan and schedule their activities, and set agendas and adhere to them. Monochronic negotiators believe that issues in a negotiation should be resolved effectively within the allotted time frame. They believe that time is money.

Polychronic: People whose orientation toward time is polychronic handle several tasks simultaneously rather than in scheduled succession. Polychronic people do not expect human activities to proceed like clockwork. Consequently, scheduling is approximate rather than specific, and delays do not have the negative associations found in monochronic cultures. Negotiators from polychronic cultures believe that taking the time to get to know their counterparts and

Notes

building a relationship is more important than adhering to a schedule. The actual clock time spent discussing and resolving issues is of minor importance.

14.4.6 Risk-Taking Propensity: Risk Averse versus Risk Tolerant

This dimension refers to negotiators' willingness to take risks.

Risk Averse: Risk-averse negotiators are hesitant to proceed with proposals that may have unknowns and/or contingencies associated with them. Risk-averse negotiators will take steps to avoid the risk of failing to come to an agreement. Consequently, they may be more likely to make concessions in order to avoid the risk of failing to come to an agreement.

Risk Tolerant: Risk-tolerant negotiators adopt a perspective that there is a level of acceptable risk that should be taken in a negotiation. They are interested in reducing risk, rather than avoiding it altogether. Risk-tolerant negotiators are willing to proceed with proposals that may have unknowns and/or contingencies associated with them. Risk-tolerant negotiators show greater willingness to run the risk of failing to come to an agreement. They accept the possibility that they may need to walk away from the table without a deal; hence, they are less likely to make, concessions.

14.4.7 Basis of Trust: External to the Parties versus Internal to the Relationship

Trust is one party's belief that the other party will take action to honour agreements that have been reached. In all countries, trust provides the foundation upon which both parties to a negotiation can work together; however, negotiators from some countries trust that the other party will fulfill its obligations because there is a signed contract and the sanction of law to back it up, while negotiators from other countries trust that the other party will fulfill its obligations because of the relationship that exists between them.

External to the Parties: Negotiators with this viewpoint trust the other party because a contract has been negotiated and agreed to, which can be litigated and enforced. The legal system and governmental agencies are viewed as providing an adequate, reliable, and effective underpinning for commercial transactions. A partner will honour the terms of the contract because the legal system will impose sanctions otherwise. The written word is binding; a deal is a deal. In this context, a trustworthy partner is one who complies with the law.

Internal to the Relationship: Negotiators with this frame trust the other party because they have invested in a relationship that has been built up over time, and they believe that the other party is committed to it. The relationship between the parties is what matters; the contract is simply a symbol of the bond between the parties who drafted it. A trustworthy partner is one who strives to maintain the relationship, possibly by modifying an existing contract to reflect new developments.

14.4.8 Concern with Protocol: Formal versus Informal

Concern with Protocol has to do with the importance placed on rules for acceptable self-presentation and social behaviour.

Formal: Negotiators with a high concern for protocol will adhere to strict and detailed rules that govern personal and professional conduct, negotiating procedures, as well as the hospitality extended to negotiators from the other side. Rules governing acceptable behaviour might include dress codes, use of titles, and seating arrangements. Negotiators believe that there is a limited range of appropriate behaviours, and there is strong agreement on the team about what constitutes correct action.

Notes

Informal: Negotiators with a relatively low concern for protocol adhere to a much smaller, more loosely defined set of rules. Team members may believe there are multiple ways to behave appropriately in a particular situation and may even have conflicting ideas about what is appropriate.

14.4.9 Style of Communication: High Context versus Low Context

This dimension refers to the degree to which people rely on verbal statements to communicate their primary message. Two culturally derived styles of communication are important to international business.

Low Context: Low-context communicators believe that clarity is critical for effective communication, and they perceive direct requests to be the most effective strategy for accomplishing their goals. The onus is on the communicator to make sure that the other party understands what is being said. Low-context communicators are less likely to pick up on hints, particularly if the parties do not know each other well. Frank, open communication is perceived as the best way to resolve differences. It is possible to offer criticism without having the other person take offense.

High Context: High-context communicators perceive direct requests to be the least effective strategy for accomplishing their goals. Directness is often considered rude and offensive; hence high-context communicators tend to be tactful, use qualifying words, and listen carefully. High-context communicators often hide their true feelings in order to maintain harmony in a relationship. It is very difficult to offer criticism without having the other person take offense. Importantly, people cannot be separated from the message, which means that reaching agreement with someone is completely dependent on liking that person.

14.4.10 Nature of Persuasion: Factual-Inductive versus Affective

This dimension refers to the type of evidence negotiators use to develop persuasive arguments. After an extensive review of the literature on philosophy, culture, and argumentation, we synthesized the variety of persuasive arguments in a bipolar dimension, with factual-inductive and affective as endpoints.

Factual-Inductive: Factual-inductive negotiators base their arguments on empirical facts and use linear logic (if-then statements) to persuade the other party.

Proof used to support persuasive arguments includes such things as scientific evidence, professional standards, expert opinion, costs, market value, and other hard data. Moreover, factual-inductive negotiators believe the strongest case is made by presenting their best arguments first.

Affective: Affective negotiators may base their arguments on abstract theory, ideals, references to status and relationships, and/or appeals to sympathy. Evidence used to support persuasive arguments includes such things as moral standards, equal treatment, tradition, and reciprocity. Affective negotiators develop their arguments indirectly. They may start with peripheral arguments and present their best arguments last, after the other party has reacted.

14.4.10 Form of Agreement: Explicit Contract versus Implicit Agreement

This dimension refers to the preferred form of agreement between the parties: either formal written contracts or informal oral agreements. Formal written contracts clearly specify desired partner actions, the degree to which both companies of the agreement will cooperate and conform to each other's expectations, as well as the penalties that one party can extract should the other party fail to perform.

Notes

Notes Informal agreements often consider the historical and social context of a relationship and acknowledge that the performance and enforcement of obligations are an outcome of mutual interest between companies.

Explicit Contract: Negotiators with this frame favour and expect written, legally binding contracts. A written contract records the agreement and definitively specifies what each party has agreed to do. Consequently, negotiators believe that written agreements provide the stability that allows their organization to make investments and minimize the risk of business.

Implicit Agreement: Negotiators with this viewpoint favour broad or vague language in a contract because they feel that definitive contract terms are too rigid to allow a good working relationship to evolve. Particularly with new relationships, negotiators may feel that it is impossible to anticipate and document every conceivable contingency. They may also believe that contracts inhibit the parties from exploring unexpected or unusual opportunities for improvement and success. Negotiators view the contract as a rough guideline, not because they want to evade responsibility, but because the relationship, not the contract, is primary.

Self Assessment

Fill in the blanks:

10. Negotiators with a relationship frame view task-related issues as being ..... from the relationship.
11. ..... Decision-Making Process refers to the manner in which a negotiating team reaches decisions.
12. ..... is one party's belief that the other party will take action to honor agreements that have been reached
13. High-context communicators tend to be .....and listen carefully.
14. People with an achievement-based view believe members of a negotiating team should be selected because they have .....
15. ..... are used to support persuasive arguments

14.5 Global E-Marketing and EDI

Global E-Marketing stands for 'electronic marketing'. In contrast to traditional marketing, E-Marketing takes marketing techniques and concepts, and applies them through the electronic medium of the internet. Essentially, E-marketing threads the technical and graphical aspects of online tools together, allowing for design, advertising, brand development, promotion and sales.

14.5.1 Benefits of Global E-Marketing

- Global **reach and access to varying demographics.** A website can reach anyone anywhere in the world who has access to the internet, you are only a search or a click of a button away from any internet user. This allows you to compete globally and test new markets you may not be able to reach through traditional channels.

Notes

- Can be **more cost effective** than traditional marketing techniques. Traditional techniques such as television, press and radio would broadcast a message in a particular timeslot on the assumption that the correct target audience was being attentive. Expensive surveys post campaign would give the marketer the evidence of campaign traction alongside the obvious changes in revenue. E-Marketing allows you to track the results and instantly see where wastage has occurred and learn quickly which marketing channels deliver best to market.
- A website is a **24/7 shopping destination.** With a website and an online shopping engine it is working even when your shop or office is closed. The website also allows you to communicate with customers about your product lines in depth so they can be fully educated on your product benefits even before meeting your staff face to face.
- **Website content can be entertaining and interactive.** Unlike the printed word or television, there is possibility of opening up two-way communication with your customer. This can occur as simply as an instant email response to customers and as complex as a regularly updated blog or micro-blog.
- **Information and ability to purchase in the one place**. It can be more cost-effective to update and re-skin your online shop front than re-paint or re-house your real life company shop fronts and the same goes for creating international versions.

14.5.2 Factors influencing Strategy creation

In the following, we discuss some of the factors influencing the creation of a global e-marketing strategy:

- ***Diversity of regulations:*** Online regulations like privacy laws, taxes or commerce have a direct impact on online providers and thus shape usage behavior in a give country. The type of competition emerging in a given country or region depends on the type of regulatory framework. For example: In Italy, bank regulations require customers to open accounts in person, forcing online banking providers to establish an offline presence.
- ***Infrastructure:*** Telecommunication and Internet infrastructures differ markedly from country to country. Perhaps two aspects are especially relevant to strategy formulation. First, installed international bandwidth sets limits on the speed at which information flows back and forth between a foreign website and a local buyer. Second, there are stunning differences between countries in terms of the proportions of users accessing the Web through a PC, their TV set or a mobile phone.
- ***Geographical distance:*** the world may have shrunk as a result of globalization and the net, but distance is still an issue. It is hard to underestimate the need for smooth and cost effective distribution logistics when it comes to fulfilling international orders for tangible goods. The ability to deliver physical products on a timely basis is not the only challenge to online marketers, however, processing and restocking product returns can be a nightmare especially given widely different cross-national regulations and customer preferences on returns policies.
- ***Language:*** the world would be very simple if English were the only language. Too many e-companies have ignored the golden rule of marketing that marketing activities should always take place in the language of the customer. Buyers like to purchase products and services in their own language, especially if the purchasing process requires understanding contractual clauses.
- ***User Demographics:*** Although online population is growing rapidly throughout the world, they are not homogeneous.

Notes

Example: Only 10% of internet users in most Latin American countries are women, whereas women represent close to 50% in the United States and Europe. Companies looking to sell Health care goods and services online will find it hard to grow sales in countries with few women web surfers, since it is women who take most of the family healthcare decisions. Similarly, in some countries, most internet users are located in the major metropolitan areas, which considerably simplify distribution logistics.

- ***Buyer behavior:*** there are countless differences in tastes and preferences. These are especially pronounced in the case of "Cultural goods" such as food, wine and entertainment. Even consumer durables are subject to tremendous cross-national variations in taste. Companies need to consider customer tastes and preferences when it comes to merchandise selection and stocking. Portals with online stores are now offering different selections and special discounts in each country.
- ***Payment systems:*** Payment methods and customs vary widely from country to country, but an increasing number of transactions in e-marketing are paid by credit cards. Consumers and companies have to accept the existence of multiple currencies on the Internet, and try to leverage it as a price discrimination tool. They should also keep an eye on currency fluctuations, since the time lag between order and payment exposes them to Exchange rate risk.

14.5.3 Electronic Data Interchange Strategy Creation

Electronic data interchange (EDI) was the standard for exchanging business transactions, purchase orders, invoices, shipping notices, and electronic funds transfers for over 25 years. In the last 10 years, EDI evolved with newer technology, especially with the ubiquity of the Internet. Because of these technological advancements, EDI is nearly as easy to use as email and is no longer an option for doing business. Instead, EDI is a business requirement.

One of the major concerns of IT and business decision makers responsible for managing supply chains and the activities of their trading partners is how to enable more effective collaboration with business partners that have individual regulatory requirements. The varying degrees of technical expertise, communications protocols, data standards, and information systems of those business partners also are of concern.

Adding to this complexity is the short supply of EDI or business-to-business (B2B) process expertise and the technologies required to achieve successful B2B collaboration. This shortage is even more difficult to overcome as most businesses search for administrative savings and vital performance improvements. Businesses also are trying to keep pace with the growing demand for accommodating new global partners, automating more interactions, and managing older EDI systems. Adding to this difficulty is the growing number of data types, standards, and protocols.

Organizations need a secure, agile, flexible, and global B2B integration platform to respond to these challenges. When combined with real-time business process visibility to achieve the highest level of B2B collaboration, the EDI platform can accommodate resource limitations with a skilled, experienced staff to offload the responsibilities from your own IT personnel.

Electronic trading requires organisations to co-operate, agreeing the form of electronic messages and collectively committing themselves to invest in the technical and organisational adjustments necessary. EDI thus differs from many other information technologies in that organisations cannot implement it in isolation. In practice this requires negotiation among enterprises which may have little history of co-operation. Early implementors of electronic trading stressed its potential as a strategic information technology, used as means of gaining advantage over competitors. However the current rhetoric of EDI increasingly views it within the concept of

Notes

"partnership" between trading partners. EDI implementations therefore have a symbolic value to user firms, being a result of closer relationships and demonstrating their commitment to a long-term relationship, but not necessarily economically justifiable.

1. As companies develop long-term EDI strategies to scale up to large B2B and EDI projects with many customers and partners, they must address the following requirements:
2. How to handle the challenges to service global growth markets based on the diversity of suppliers, the effect of trade regulation and finances, and the complexity of supply chain delivery. Companies need to respond to all customers and manage all partners cost-effectively.
3. How to integrate on-premise systems with those systems used from the Cloud.
4. How to integrate with business partners who also use systems and applications in the Cloud.

Business decision makers responsible for the success of B2B integration found that B2B process experts and technologies are in short supply. Businesses in search of administrative savings and vital performance improvements also face the difficulties of obtaining the resources needed to address these new requirements. Businesses also must address the challenge of managing older EDI systems complete with the growing numbers of data types, standards, and protocols.

The adoption of an EDI linkage, however, is significantly different from the adoption of an innovative internal technology. EDI produces changes in the exchange relationship between the participating firms which have implications for both the internal economy and polity of the channel. The establishment of a sophisticated computer linkage between firms reflects a significant commitment to the relationship. Discrete transactions are subsumed in the creation of a long-term, complex relational exchange. This requires attention not only to the efficiency effects of the technology, but also to the effect it will have on the business relationship between the parties.

The relative advantage of EDI over traditional exchange processes not only involves transaction cost reduction for the channel members, but also permits greater servicing of the channel's customers in the output market. The quick response to customers' needs permitted by EDI creates a competitive advantage for the downstream channel member. In highly competitive output markets, the potential for that competitive advantage has a significant impact on the likelihood of adoption of new technology.

An essential function of EDI is the formalization of communication within the channel. By formalizing the communication processes and procedures, it enhances the speed, accuracy, and completeness of inter-organizational communications. This has important implications for channel commitment because the sharing of timely and meaningful information has been associated with increased outcomes versus comparison levels. Moreover, the improvement of the quality of information flows between channel members has been linked to their ability to understand each other's goals and to coordinate their efforts to achieve those goals.

Channel buyer satisfaction is derived both from cost saving efficiency gains and from the enhanced ability to serve their own customers if supplied by channel members using EDI technology. The differentiation opportunities of EDI can be viewed as the opportunities afforded by a technological innovation that allows the firm deploying the EDI to provide a level of service better than that previously experienced in the industry. The uniqueness of the innovation allows the firm to differentiate itself on the basis of superior service, which increases the likelihood of channel commitment and source loyalty. This differentiation should have a positive effect on its share of the linked buyer's business.

Notes

In the insurance industry, systems have been developed specifically to serve the strategic purposes of particular insurance companies. A good example of such an arrangement involves AEtna, which, through its GEMINI system, offers its agents a fully integrated proprietary system that includes a back-office agency management system together with an electronics linkage to the company's mainframe. Although this approach significantly increases the costs of the target firm's initial adoption, it also makes the adoption of additional interfaces very costly.

At the other end of the spectrum, there are insurance companies, like Maryland Casualty, that take pride in facilitating the implementation of EDI by adapting themselves to whatever equipment the agents have, and using the public value-added network of the industry. Typically, the solution is a stand-alone PC that de-couples the internal agency system from the EDI and its outside communications. The result is a flexible (and modular) approach at the expense of full data integration with the agency's internal computer processes and databases. This approach significantly reduces the costs of the initial adoption, but leaves the source firm subject to easy adoption of additional links by the target firm.

Self Assessment

Fill in the blanks:

16. With a ..... and an online shopping engine it is working even when your shop or office is closed.
17. A website can reach anyone anywhere in the world who has access to the internet, you are only a search or a click of a button away from any ..... user.

Case Study

The Panama Canal Negotiations

The completion of the Panama Canal is one of the world's great engineering feats. The negotiations to complete and build this vital connector between two oceans spans decades. The cost in human lives, suffering, and capital staggers the imagination. It all began in 1847 when the United States entered in a treaty with New Granada (later to be know as Colombia), and which allowed the U.S. a transit passage over the Isthmus of Panama. The treaty guaranteed Panama's neutrality and recognized that Colombia would have sovereignty over the region.

Nothing really occurred with this development and ultimately, a French company called the Compagnie Nouvelle du Canal de Panama acquired the contract to build the canal in 1881. By 1889, the Compagnie had gone bankrupt and had lost roughly around $287 million U.S. along with approximately 20,000 lives in the process. It is also in 1889 that the U.S. has become convinced that the canal passage was absolutely vital to their interests. They appointed Rear Admiral John Walker to head the Commission and to choose the most viable route.

Naturally, the U.S. was interested in the Panama route already started by the French. The French company which had been heading for bankruptcy, and seeing the writing on the wall before their bankruptcy in 1889, had entered into negotiations with the U.S. The French company was eager to extricate themselves from the project. At the time, their holdings were extensive and included land, the Panama Railroad, 2,000 buildings, and an extensive amount of equipment. They felt their total holdings should be valued around

Contd...

Notes

109 million U.S., but Rear Admiral Walker estimated them to be not greater than about 40 million U.S., a significant difference.

As negotiations progressed, the Americans began to hint that they were also interested in the possibility of building an alternative canal in Nicaragua. The French countered with the ploy by claiming that both Great Britain and Russia were looking at picking up the financing to complete the canal's construction. It was subsequently leaked to the U.S. press, much to the French company's pique that the Walker Commission concluded that the cost to buy out the French company was too excessive and recommended the Nicaraguan route.

A couple days later after this news, the president of Compagnie Nouvelle resigned. The resulting furore caused the stockholders to demand that the company be sold to the U.S. at any price they could get. The Americans became aware that they could now pick up all the French holdings for 40 million dollars. However, the Walker Commission had not just been a ploy by the Americans because the Nicaraguan route was actually a serious proposal that had a lot of backing in the U.S. Senate. President Roosevelt had to engage in some serious political manoeuvrings to get everybody on board of the Panama passage. The Walker Commission changed its recommendation to favour Panama as the canal route.

But the story doesn't end there. Next, the U.S. signed a new treaty with Colombia's charge d'affairs which gave the U.S. a six mile area across the Isthmus and agreed to financial remuneration that was to be paid to Colombia. The Colombian charge d'affairs had signed the treaty without communicating with his government. The treaty was rejected by Colombia. In the meantime, revolution against Colombian authority was afoot in Panama. Since they believed they had signed a legitimate treaty, Roosevelt sent warships to the area to negate the Colombians, and thus secured U.S. interests, and offered aid to the Panamanians in their quest to separate from Colombia. Panama succeeded in their revolt and became a republic. In 1914, the Panama Canal was opened.

Question

Elaborate on the role of the Americans in The Panama Canal Negotiations

Source: http://www.negotiations.com/case/canal-route/

14.6 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

- Because styles of business negotiations vary substantially around the world, it is important to take cultural differences into account when meeting clients, customers, and business partners across the international negotiation table.
- In addition to cultural factors, negotiators' personalities and backgrounds also influence their behaviour. Great care should be taken to get to know the individuals who represent client and customer companies. Cultural stereotypes can be quite misleading.
- Four kinds of problems frequently arise during international business negotiations—problems at the level of language, non-verbal behaviours, values, and thinking and decision-making processes. Foreign language skills are an essential tool of the international negotiator.
- Non-verbal behaviours vary dramatically across cultures, and because their influence is often below our level of awareness, problems at this level can be quite serious. Whereas most Americans value objectivity, competitiveness, equality, and punctuality, many foreign executives may not.

Notes

- As for thinking and decision making, Western business executives tend to address complex negotiations by breaking deals down into smaller issues and settling them sequentially; in many Eastern cultures a more holistic approach is taken in discussions.
- Much care must be taken in selecting negotiation teams to represent companies in meetings with foreigners. Listening skills, influence at headquarters, and a willingness to use team assistance are important negotiator traits.
- The importance of cross-cultural training and investments in careful preparations cannot be overstated. Situational factors such as the location for meetings and the time allowed must also be carefully considered and managed.
- All around the world business negotiations involve four steps: nontask sounding, task-related information exchange, pervasion, and concessions and agreement. The time spent on each step can vary considerably from country to country.
- Americans spend little time on non-task sounding or getting to know foreign counterparts. Particularly in high-context cultures, it is important to let the customers bring up business when they feel comfortable with the personal relationship.
- Task-related information goes quickly in the United States as well. In other countries, such as Japan, the most time is spent on the second stage, and careful understandings of partners are focused upon. Persuasion is the most important part of negotiations from the American perspective.
- Aggressive persuasive tactics (threats and warnings) are used frequently. Such persuasive tactics, although they may work well in some cultures, cause serious problems in others.
- Finally, because Americans tend to be deal oriented, more care should be taken in follow-up communications with foreign clients and partners who put more emphasis on long-term business relationships.

14.7 Keywords

Distributive Perspective: The assumption underlying distributive bargaining strategies is that one party gains at the expense of the other.

Formal Written Contracts: A formal written agreement is a legal document summarizing obligations between parties. It is also referred to as a "contract" when it is legally enforceable.

Integrative Perspective: The assumption underlying integrative bargaining strategies is that there is opportunity for both parties to gain from a negotiated agreement because they place different values on the issues being negotiated and can find effective trade-offs by conceding less important issues to gain on more important ones.

Internal Decision-Making Process: This process refers to the manner in which a negotiating team reaches decisions.

Negotiation: Negotiation is a dialogue between two or more people or parties, intended to reach an understanding, resolve point of difference, or gain advantage in outcome of dialogue, to craft outcomes to satisfy various interests of two people/parties involved in negotiation process.

Risk Averse: Risk averse negotiators are hesitant to proceed with proposals that may have unknowns and/or contingencies associated with them.

Notes

Risk Tolerant: Risk tolerant negotiators adopt a perspective that there is a level of acceptable risk that should be taken in a negotiation. They are interested in reducing risk, rather than avoiding it altogether.

Trust: Trust is one party's belief that the other party will take action to honour agreements that have been reached.

14.8 Review Questions

1. How is international marketing different from domestic marketing?
2. How does difference in values affect international business?
3. Explain the characteristics of a successful negotiator.
4. Explain the different perspectives in the basic concept of negotiation.
5. Discuss the Negotiation Orientations Framework.
6. How is Risk handled by negotiators?
7. Elaborate on the role of Trust in negotiations.
8. Write a short note on Internal Decision-Making Process.
9. Differentiate between Explicit Contract and Implicit Agreement.
10. What is Global E-Marketing and what are its benefits?

Answers: Self Assessment

1.	False	2.	False
3.	True	4.	Negotiators
5.	Stability	6.	correct
7.	Language, Values	8.	complex
9.	impolite	10.	Inseparable
11.	Internal	12.	Trust
13.	tactful	14.	expertise
15.	Evidences	16.	Website
17.	Internet		

14.9 Further Readings

Books

Cateora and Graham, *International Marketing*, McGraw Hill, 2007

Charles W.L. Hill, *International Business Competing in the Global Marketplace*, 4th Edition, Tata McGraw-Hill Publishing Company Limited.

Chase Richard, Jacob Robert, Aquillano and Agarwal Nitin, *Operations Management*, 11th Edition, Tata McGraw-Hill Publishing Company Limited.

Justin Paul, *International Business*, 3rd Edition, Prentice Hall of India

Vasudeva, PK, *International Marketing*, Excel Books, New Delhi, 2010

Notes

Online links

http://marriottschool.net/teacher/BM431/daniels/Ch19.pdf

http://www.citeman.com/13471-negotiating-with-international-customers-partners-and-regulators.html

http://www.slidefinder.net/c/chap019_debbie_negotiation/chap019(debbie)negotiation/11052032

http://www.unior.it/userfiles/workarea_2157/file/salacuse.pdf