NATIONAL OPEN UNIVERSITY OF NIGERIA

MKT 825

International Marketing

Module 2

MKT 825 (International Marketing) Module 2

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Unit 1 Product Strategies

1.0 Introduction

Individual consumers vary in needs and taste. Different products appeal to individuals differently, because of their peculiar characteristics. A product that is successful in one country is not a guarantee that it would be successful in other markets. A marketer must always determine local needs and tastes and take them into consideration. Some products have universal appeal, and little or no change is necessary when these products are placed in various markets. But for every so called universal product, there are many others that have a narrow appeal.

For such products, modification is necessary in order to achieve acceptance in the marketplace. It is generally easier to modify a product than to modify consumer preference. That is, a marketer should change the product to fit the need of the consumer rather than try to adjust consumers' needs to fit product characteristics. The purpose of this unit is to study products in an international context. The emphasis of the unit is on the meaning of product and the necessities of market segmentation and product positioning.

2.0 Objectives

At the end of this unit, you should be able to:

- define a product
- explain rational behind market segmentation
- explain the term product positioning
- explain issues in new product development.

3.0 Main Content

3.1 What is a Product?

A product is often looked at in a narrow sense as something tangible that can be described in terms of physical attributes, such as shape, dimension, components, form, colour, and so forth. This is a misconception that has been extended to international marketing as well, because many people believe that only tangible products can be exported. A student of marketing, however, should realise that this definition of a product is misleading since many products are intangible (e.g., services). Actually, intangible products are a significant part of modern marketing activities.

For example, Nigerian movies are distributed worldwide, as engineering services and business consulting services. In the financial market, Nigeria and European banks have been internationally active in providing financial assistance, often at handsome profits. Besides, even when tangible products are involved, insurance services and shipping are needed to move tangible products into their markets.

In many situations, both tangible and intangible products must be combined to create a single, total product. Perhaps the best way to define a product is to describe it as a bundle of utilities or satisfaction. Warranty terms, for example, are a part of this bundle, and they can be adjusted as appropriate (i.e., superior versus inferior warranty terms). For example, a purchaser of Mercedes-Benz expects to acquire more than just the cars themselves. For instance, different parts of the world do not have the same weather system. In hot and humid countries, Nigeria for example, there is no reason for a heater to be part of the automobile product bundle. In the USA, their equipment is heavier and automated due to the weather system.

Thus, a multinational marketer must look at a product as a total, complete offering. Consider the Mercedes-Benz car, in Nigeria it is considered as the rich men car; while in Benin Republic it is used like any other cars in the street. This implies that a complete product should be viewed as a satisfaction derived from the four **Ps** of marketing (product, place, promotion and pricing)- and not simply from the physical product characteristics.

Self-Assessment Exercise

In your own words define a product.

3.2 New Product Development

There are six distinct steps in new product development, these include:

1. Generation of new product ideas. Ideas can be generated from any of these sources-salespersons, employees, competitors, governments, marketing research firms, customers, and so forth. As an international marketer, you should note that the anticipating countries where products are to be marketed should be taken into consideration.
2. Screening of ideas. Ideas must be acknowledged and reviewed to determine their feasibility. To determine suitability, a new product concept may simply be presented to potential users, or an advertisement based on the product can be drawn and shown to focus groups to elicit candid reactions. As a rule, corporations, especially multinational companies, usually have predetermined goals that a new product must meet. For example, Kao Corporation, a major Japanese manufacturer of consumer goods, is guided by the following five principles of product development:
    - A new product should be truly useful to society, not only now but also in the future
    - It should make use of Kao's own creative technology or skills
    - It should be superior to the new products of competitors, from the standpoint of both cost and performance
    - It should be able to exhaust product tests at all stages before it is commercialised
    - It should be capable of delivering its own message at every level of distribution.

3. Business Analysis-This is necessary to estimate product features, cost, demand, and profit. This is one area where a new international marketer needs to critically study. Some marketers jump into conclusion by using one of the above variables without necessarily taking others into consideration. It is a combination of two or more variables.

4. Product Development: This involves laboratory and technical tests as well as manufacturing pilot models in small quantities. At this stage the product is likely to be

handmade or produced by existing machinery rather than by new specialised equipment. Ideally, engineers should receive direct feedback from customers and dealers. For example, billing-per-second from telecommunication companies in Nigeria was as a result of analyses of Nigerian market, satisfying yearnings of the target market.

5. Test Marketing: This is designed to determine potential marketing problems and the optimal marketing mix. This stage is critical because some prospective consumers may not display their preference for the products. This, therefore, calls for testing in more one target markets. This, sometimes, implies to correct one or two features the target markets might have included or redesign the product to capture consumer preferences.

6. Commercialisation: Finally, assuming that things/products go well, the company is ready for full-scale commercialisation by actually going through with full-scale production and marketing.

It should be noted that not all of these six steps in new product development will be applicable to all products and countries. For example, test marketing may be irrelevant in countries where major media organs are more national than local. If television medium has a nationwide coverage, it is not practicable to limit a marketing campaign to one city or region for test marketing purpose. New products are evolving daily depending on the capacity of the company concerned.

However, it is easier for a new product to fail than succeed. Naturally, so many things can go wrong. But it is just as critical for a company to know when to retreat as when to launch a product. For example, Coca-Cola's Ambasa Whitewater, a lactic-based drink, was removed from the market after eighteen months when sales started to decline.

3.3 Market Segmentation

Market segmentation is a concept to which professional marketers like to pay great deal of attention. All conceivable possibilities for segmenting the local markets had been thoroughly studied by some marketers. But on the international scale, some of them are prone to treat market segmentation as an unknown and unfamiliar concept and thus, they apparently leave their knowledge about market segmentation at home when they go abroad.

For example, more often than not, there is hardly any serious or conscious attempt by American businesspeople to segment a foreign market. This phenomenon probably derives from an assumption that by going abroad, geographic segmentation has been implemented. But geographic segmentation, an obvious choice, is often overemphasised and usually inappropriate. Marketers fail to realise that the purpose of segmentation is to satisfy consumer needs.

Another mistake international marketers often make in foreign countries is attempting to capture the local market at once. These results in disappointment in market performance, namely- consumers in foreign country are likely to be homogeneous. It is important to distinguish consumers into urban and rural. In addition, a total market strategy places the company in head-to-head competition with strong, local competitors.

The success of Japanese products for example in United States and Africa in particular can be attributed to explicit and conscious attempt by the Japanese to segment the market. Japanese firms usually pick their targets carefully, avoiding head-to-head with major U.S manufacturers in mature industries. Starting at the low end of the product spectrum, a Japanese firm establishes a reputation for product excellence, and eventually gets customers to trade up over time. This strategy has worked exceedingly well in the automobile and consumer-electronics industries.

The most important reason behind the utilisation of market segmentation is market homogeneity/heterogeneity. Based on the national boundary, homogeneity can be vertical (i.e., homogeneous within the same country) or horizontal (i.e., homogeneous across countries). This implies that two countries exhibiting the lack of vertical homogeneity within their borders may still be homogeneous horizontally when a particular segment of the country is similar to an equivalent segment of another country. This is what Hassan and Katsanis call global market segment, and they derive it through "the process of identifying specific segments, whether they may be country groups or individual consumer groups, of potential consumers with homogeneous attributes who are likely to exhibit similar buying behaviour." They felt that the global elite and global teenager segments are particularly amenable to global segmentation. Nevertheless, market segmentation is not always necessary or desirable.

Self-Assessment Exercise

What is responsible for the success of Japanese firms products in Africa and the U.S?

3.4 Product Positioning

Product positioning is a marketing strategy that attempts to occupy an appealing space in a consumer's mind in relation to the spaces occupied by other competitive products. The mind is like a computer in that it has slots or positions, and each bit of information is placed and retained in the proper slot. The mind screens and accepts information according to prior experience.

Over the years, Coca-Cola has succeeded in taken over Nigeria market with its soft-drink coke. An average child in the country only knows one soft drink which is coke. Any attempt to give him/her other brands of soft drinks will amount to explanation upon explanations. This is because coke is believed to have energy and quality than any other soft drinks in the country. In the automobiles, Mercedes-Benz is considered for the wealthy and luxury; while BMW tries to maintain a uniform international image by appealing to the racy.

A marketer determines the perceived position of a product as well as the ideal position in a number of ways, namely:

1. To use focus groups to explore possible alternatives.
2. To rely on perceptual and preference mapping. Respondents compare brands on perceived similarity and in relation to their ideal brands. The statistics techniques of multidimensional scaling (MDS) can then be used to determine the number and types of dimensions and to transform similarities into distances. Attributes can later be examined to see how each attribute is associated, more or less, with a particular brand.

A product must be positioned carefully. A company may possibly use dual and even triple positioning. For example, Beecham has positioned Aqua Fresh as:

- Toothpaste
- Breath fresher, and
- Plaque remover.

When a product has been incorrectly positioned or the original position loses its appeal, a firm should reposition the product. Beecham has been successful in repositioning several of its mature brands. Its Ribena brand, a black-currant juice sold to children for half-century, experienced an impressive increase in sales after single-portion packs and new flavours were added to attract adult drinkers and toddlers. In the early 1990s, Volvo wanted the American public to view its product as an import with the comfort of a U.S. car. More recently, Volvo has tried to add a fun-to-drive component to its messages that have reminded people so much of Volvo's boxy, boring, but safe reputation. The T-R5, a special edition of the 850, is used to create a sportier image. Some marketers view Volvo admiringly as a "strategic chameleon."

In practice, segmentation and positioning should be used together to reinforce each other. A study of how American and Japanese firms compete in the British market found that the Japanese have clear market segmentation and positioning strategies. Regarding market segments, the Japanese first entered the low end of the market before moving on to the mass market and eventually the high value-added end. Regarding positioning, the Japanese have a clear focus on quality, service, and innovation. In comparison, British firms emphasise traditional brand names, while American firms emphasised product range and technology and are less likely to adapt to local market conditions.

In conclusion, consumer needs must determine how products are to be positions.

3.5 Product Adoption

While entering international market, marketers should consider factors influencing product adoption. Factors to be considered include:

Relative Advantage: For product to gain acceptance, it must demonstrate its relative advantage over existing alternatives. For example, product emphasising cleanliness and sanitation may be unimportant in places where people are poor and struggle to get by one day at a time. Wool coats are needed in a hot country, and products reducing static cling are useless in a humid country.

Compatible with local customs and habits: 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. In Asia and some part of European countries like France and Italy, people like to sweep and mop floors daily, and thus there is no market for carpet or vacuum cleaners.

Compatible: A new product should also be compatible with consumers' other belongings. If a new product requires a replacement of those other items that are still usable, product adoption becomes a costly proportion.

Trialability/divisibility: A new product has an advantage if it is capable of being divided and tested in small trial quantities to determine its suitability and benefits. On the contrary, when a product is large, bulky, and expensive, consumers are much more apprehensive about marketing a purchase. Thus, washers, dryers, refrigerators, and automobiles are products that do not lend themselves well to divisibility. This factor explains one reason why foreign consumers do not easily purchase American automobiles, knowing that a mistake could ruin them financially. Many foreign consumers therefore prefer to purchase more familiar products, such as Japanese automobiles, that are less expensive and easier to service and whose parts are easier to repair.

Observation: Observation of a product in public tends to encourage social acceptance and reinforcement, resulting in the product's being adopted more rapidly and with less resistance. If a product is used privately, other consumers cannot see it, and there is no prestige generated by its possession. For example, Blue jeans, quartz watches, and automobiles are used publicly and are highly observable products. Japanese men flip their ties so that the label shows. Refrigerators, on the other hand are privately consumed products. In any case, a distinctive and easily recognised logo is very useful.

Complexity: Complexity of a product or difficulty in understanding a product's qualities tends to slow its market acceptance. For instance, computers are complex but have been gradually gaining more and more acceptance, perhaps in large part, because manufacturers have made the machines simpler to operate. The availability of ready-made software also alleviates the difficulty in learning computers generally.

The first four variables are positively related to the adoption process. Like complexity, price is negatively related to product adoption. For example, before 1982, copiers were too big and expensive. Canon then introduced personal copiers' with cartridges that customers could change. Its low price was so attractive to customers that Canon easily dominated the market.

Self-Assessment Exercise

Briefly explain the factors influencing product adoption while entering foreign markets.

3.6 Product Standardisation versus Product Adaptation

Product standardisation means that a product originally designed for a local market is exported to other countries with virtually no change, except perhaps for the translation of words and other cosmetic changes. There are advantages and disadvantages to both standardisation and individualisation.

3.6.1 Arguments for Standardisation

The strength of standardisation in the production and distribution of products and services is its simplicity and cost. It is an easy process for executives to understand and implement, and it is also cost-effective. If cost is the only factor being considered, then standardisation is clearly a logical choice because economies of scale can be operated to reduce production cost.

However, minimising production costs 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 improvements, and in fact the reverse may apply. By trying to control production costs through standardisation, the product involved may become unsuitable for alternative markets. The result may be that demand will decline, which leads to profit reduction.

In some situations, cost control can be achieved but at the expense of overall profit. It is therefore, prudent to remember that cost should not be over emphasised. The main marketing goal is to maximise profit, and production-cost reductions should be considered as a secondary objective. The two objectives are not always convergent. When appropriate, standardisation is a good approach. For example, when a consistent company or product image is needed, product uniformity is required. The worldwide success of McDonald's is based on consistent product quality and services.

Some products by their very nature are not or cannot be easily modified. Musical recordings and works of art are examples of products that are difficult to differentiate. The same thing applies to books and motion pictures. Whether such products will be successful in diverse markets is not easy to predict. For examples films that do well in Nigeria, may do poorly in Ghana.

With regard to high-technology products, both users and manufacturers may find it desirable to reduce confusion and promote compatibility by introducing industry specifications that make standardisation possible; electrical fittings, for example.

A condition that may support the production and distribution of standardised products exists when certain products can be associated with particular cultural universals. That is, when consumers from different countries share similar need characteristics and therefore wants essentially identical products. Watches are used to keep time around the world and thus can be standardised. The Bible and Quran are other examples.

Onkvisit and Shaw (1997) reported that industrial managers of consumer goods regarded certain marketing related factors differently, thus implying that product standardisation or customisation depends in part on the type of product. In addition, respondents consistently regarded competitive environment as the most important variable affecting marketing standardisation.

3.6.2 Arguments for Adaptation

There is nothing wrong with standardisation of products if consumers prefer those products. In many situations, domestic consumers may desire a particular design of a product produced for a particular market. But when the product design is placed in foreign markets, foreign buyers are forced either to purchase that product from the manufacturer or not purchase anything at all. This manner of conducting business overseas is known as **"big-car" and "left-hand-drive"** syndromes.

According to the big-car syndrome, U.S. marketers assume that products designed for Americans are superior and will be preferred by foreign consumers. U.S. automakers believe that the American desire for big cars means that only big cars should be exported to overseas markets.

The left-hand drive syndrome is a corollary to the big-car syndrome. Americans drive on the right side of the road, with the steering wheel is on the left side of the automobile. But many Asian and European countries have traffic laws requiring drivers to drive on the left side of the road, and cars with the steeling wheel on the left present a serious safety problem. Yet exported U.S cars are the same left-hand drive models that are sold in the United States for the right-hand traffic patterns. According to the excuse used by U.S. automakers, a small sales volume abroad does not justify converting exported cars to right-hand steering.

Product adaptation is necessary under several conditions. Some are mandatory, whereas others are optional.

Mandatory Product Modification: The mandatory factors affecting product modification are the following:

- Government's mandatory standards (i.e. country's regulations)
- Electrical current standards
- Measurement standards

- Product standards and systems.

Option for Product Modification: The examples of these options include:

- Physical Distribution
- Local use conditions (climate conditions)
- Space constraint
- Consumer demographics as related to physical appearance
- User's habits
- Environment characteristics and so forth.

3.7 Theory of International Product Life Cycle

The international product life cycle (IPLC) theory, explains trade in a context of comparative advantage. It describes the diffusion process of an innovation across national boundaries. The life cycle begins when a developed country, having a new product to satisfy consumer needs, wants to exploit its technological breakthrough facilities by selling abroad. Other advanced nations soon start up their own production facilities, and before long LDCs do the same. Efficiency/comparative advantage shifts from developed countries to developing nations. Finally, advanced nations to be cost-effective import products from their former customers. The moral of this process could be that an advanced nation becomes a victim of its own creation. There are five distinct stages as shown in Table 1.1 below.

Table1.1: IPLC Stages and Characteristics (for the initiating country)

Stage	Import/Export	Target market	Competitors	Production cost
(1) Local innovation	None	USA	Few: local firms	Initially high
(1) Overseas innovation	Increasing export	USA & advanced nations	Few: Local firms	Decline owing to economies of scale.
(2) maturity	Stable export	Advanced nations &LDCs	Advanced nations	stable
(3)worldwide imitations	Declining export	LDCs	Advanced nations	Increase owing to lower economies of scale.
(4) reversal	Increasing import	USA	Advanced nations & LDCs	Increase owing to comparative disadvantage.

Source: Sak Onkvisit & J. J. Shaw, "An Examination of the International Product Life Cycle and Its Applications within Marketing." *Columbia Journal of World Business* 18 (Fall) 1983): 74.

Stage 0-Local Innovation: Stage 0, depicted as time 0 on the left of the vertical importing/exporting axis, represents a regular and highly familiar product life cycle in operation within its original market. Innovations are most likely to occur in highly developed countries because consumers in such countries are affluent and have relatively unlimited wants. From the supply side, firms in advanced nations have both the technological know-how and abundant capital to develop new products. This is a pointer to the less developed countries while entering foreign markets.

Stage 1- Overseas Innovation: As soon as the new product is well developed, its original market well-cultivated, and local demands adequately supplied, the innovating firm will look to overseas markets in order to expand its sales and profit. Thus, this stage is known as a "pioneering" or "international Introduction" stage. The technological gap is first noticed in other advanced nations because of their similar needs and high income levels.

Competition in this stage usually comes from U.S firms, since firms in other counties may not have much knowledge about the innovation. Production cost tends to be decreasing at this stage because by this time the innovating firms will normally have improved the production process. Supported by overseas sales, aggregate production costs tend to decline further because of increased economies of scale.

Stage 2- Maturity: Growing demand in advanced nations provides an impetus for firms there to commit themselves to starting local production, often with the help of their governments' protective measures to preserve infant industries. Thus, these firms can survive and thrive in spite of relative inefficiency. The development of competition does not mean that the initiating country's export level will immediately suffer. The innovating firm's sales and export volumes are kept stable because LDCs are now beginning to generate a need for the product.

Stage 3- Worldwide Imitation: This stage means tough times for the innovating nation because of its continuous decline in exports. There is no new demand anywhere to cultivate. The decline will inevitably affect the innovating firm's economies of scale, and its production costs thus begin to rise again. Consequently, firms in other advanced nations use their lower prices to gain more consumer acceptance abroad at the expense of the U.S firm. The U.S automobile industry is a good example of this phenomenon.

Stage 4-Reversal: Not only must all good things end, but misfortune frequently accompanies the end of a favourable situation. The major functional characteristics of this stage are product standardisation and comparative disadvantage. The innovating country's comparative advantage has disappeared, and what is left is comparative disadvantage. This disadvantage is brought about because the product is no longer capital intensive or technology-intensive but instead has become labour intensive- a strong advantage possessed by LDCs. Thus, LDCs- the last imitators would establish sufficient productive facilities to satisfy their own domestic needs as well as to produce for the biggest market in the world, the United States.

4.0 Conclusion

A product provides a bundle of satisfaction that the consumer derives from the product itself, along with its promotion, distribution, and price. For a product or service to be successful in any market, whether at home or abroad, it must therefore primarily satisfy consumer needs. In order to satisfy these needs more precisely, marketers must employ market segmentation, product positioning and other marketing techniques.

5.0 Summary

In this unit, you learnt about product strategies as a consideration for satisfying consumer needs. Arguments for adaptation and standardisation were expressly discussed. Conditions for adaptation and standardisation of products at the international marketing were examined.

6.0 Self-Assessment Exercise

Offer your argument for product adaptation.

7.0 References/Further Reading

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Unit 2 Distribution Strategy

1.0 Introduction

A manufacturer can sell directly to end users abroad, but this type of channel is generally not suitable or desirable for most consumer goods. In foreign markets, it is far more common for a product to go through several parties before reaching the final consumer. The purpose of this unit is to discuss the various channels of distribution that are responsible for moving products from manufacturers to consumers. The unit also describes the varieties of intermediaries involved in moving products between countries as well as within countries. It should be noted that certain types of intermediaries do not exist in some countries and that the pattern of use as well as the importance of each type of intermediary varies widely from country to country. A manufacturer is expected to make several decisions that will affect its channel strategy, including the length, width, and number of distribution channels to be used.

2.0 Objectives

At the end of this unit, you should be able to:

- define a channel of distribution for goods or services
- explain channel members involved in moving goods from manufacturers to the consumers
- explain the determinants of channel types.

3.0 Main Content

3.1 Channels of Distribution

A channel of distribution for a product is the route taken by the title to the product as it moves from the producer to the ultimate consumer or industrial user. It can also be described as a set of institutions which performs all the activities or functions utilised to move a product and its title from production to consumption. A channel always includes both the producer and the final customer for the product, as well as all middlemen involved in the title transfer. Even though, agent middlemen do not take actual title to the goods, they are included as part of the distribution channel. This is because they play such an active role in the transfer of ownership. A trade channel does not include facilitating agencies in marketing. This is because they only assist in the performance of distribution but neither takes title to goods nor negotiates purchases or sales.

3.2 Forms of Channel of Distribution

Companies use two principal channels of distribution when marketing abroad. These are indirect selling and direct selling.

Indirect selling, also known as the local or domestic channel, is employed when a manufacturer in Nigeria, for example, markets its product through another Nigeria's firm that acts as the manufacturer's sales intermediary. By exporting through an independent local middleman, the manufacturer has no need to set up an international department. The middlemen acting as the manufacturer's external export organisation, usually assumes the responsibility for moving the product overseas. The intermediary may be a domestic agent if it does not take title to the goods, or it may be a domestic merchant if it does take title to the goods.

Some of the advantages to be gained by employing an indirect domestic channel include:

- 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 the goods overseas.
- The intermediary very likely represents several clients who can help share distribution costs, the costs for moving the goods are further reduced.

An indirect channel does have some limitations, which include:

- The manufacturer has been relieved of any immediate marketing costs, but in effect, has given up control over the marketing of its products to another firm. This situation may adversely affect the product's success in the future.
- The indirect channel may not necessarily be permanent. Being in the business of handling products for profit, the intermediary can easily discontinue handling a manufacturer's product if there is no profit or if a competitive product offers a better profit potential.

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 the home country. The manufacturer must set up the overseas channel to take care of the business activities between the countries. Being responsible for shipping the product to foreign markets itself, the manufacturer exports through its own internal export department or organisation. Some of its advantages are:

- There is active market exploitation
- There is a greater control

However, it suffers from difficulty in management of the channel, especially if the manufacturer is unfamiliar with the foreign market. Also, the channel is time consuming and expensive.

3.3 Types of Intermediaries: Direct Channel

There are several types of intermediaries associated with direct channel of distribution. Some of these include:

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. Orders 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 redistributes the merchandise to retailers and sometimes final consumers. Hence, 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. In some situations, the foreign distributor is merely a subsidiary of the manufacturer.

Foreign Retailer

Foreign retailers are employed for consumers' products rather than industrial products.

State-Controlled Trading Company

Some products are sold to state-controlled trading company, before they further resell to individuals and institutions. These entail heavy equipment and machineries.

End User

Sometimes, a manufacturer is able to sell directly to foreign end user with no intermediary involved in the process. The direct channel is a logical and natural choice for costly industrial products. However, it is challenging, for example, 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. Continued occurrence of this problem could become expensive for the manufacturer.

Indirect Channel

For a majority of products, a manufacturer may find it impracticable to sell directly to the various foreign parities. Other intermediaries more often than not, have to come between these foreign buyers and manufacturer's country. With an indirect channel, a manufacturer does not have to correspond with foreign parties in foreign countries. Agents can be further classified according to the principal whom they represent.

(a) Export Broker

The function of an export broker is to bring a buyer and a seller together for a fee. The broker may be assigned some or all foreign markets in seeking potential buyers. It negotiates the best terms for the seller, but cannot conclude the transaction without the principal's approval of the agreement. As a representative of the manufacturer, the export broker may operate under its own name or that of the manufacturer.

(b) Manufacturer's Export Agent or Sales Representative

This is an independent business person who usually retains his or her own identity by not using the manufacturer's name. 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. The manufacturer's export agent works for commission. The manufacturer's export agent may present some problems to the manufacturer because an agent does not offer all services. An export agent may take possession but not title to the goods and thus assumes no risk- the risk of loss remains with the manufacturer.

(c) Export Management Company (EMC)

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 an export department for several allied but non-competing manufacturers. The EMC has greater freedom and consideration authority. The EMC provides extensive services, ranging from promotion to shipping arrangement and documentation. The EMC is responsible for all of the manufacturer's international activities.

(d) 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. Except for the fact that this intermediary is also a manufacturer, the cooperative exporter functions like any other export agents. It operates as an export distributor for other suppliers. It takes possession of goods but not title.

(e) Others forms of agents include:

- Purchasing/Buying Agent
- Country-Controlled Buying agent
- Resident buyer
- Export merchant
- Export drop shipper
- Export distributor
- Trading company; etc.

This can be summarised using the following table

Types of Marketing Channels

Manufacturer________ Consumer or Industrial user

1. Manufacturer________ Retailer in _____Consumer or Foreign country industrial user.

2. Manufacturer_______ Wholesaler_____ retailer_______ Consumer or in foreign industrial user

3. Manufacturer_____________ Importing___ Do_________ Do______________ Do_____ Middlemen In foreign Country.

4. Manufacturer__ exporting___ Do________ Do_______________ Do___ Middlemen

5. Manufacturer__ exporting__ Importing__ wholesaler___ retailer_ con. Or Middlemen. middlemen in foreign in foreign industry. Foreign country- country user country

Self-Assessment Exercise

Briefly differentiate between direct channel and indirect channel.

3.4 Channel Adaptation

Because the standardisation/globalised approach to international marketing strategy may not apply to distribution strategy in foreign markets, it is imperative that international marketers understand the distribution structures and patterns in those markets/countries. Hence, comparative analysis should be conducted.

Some channel adaptation is frequently a necessity. For example, Avon has had to develop other distribution methods in Japan and Thailand. A traditional distribution channel may seem inefficient, but it may maximise the utilisation of inexpensive labour, leaving no idle resources.

A manufacturer must keep in mind that, because of adaptation, a particular type of retailer may not operate in exactly the same manner in all countries. A particular distribution concept proven useful in one country may have to be further refined in another.

3.5 Determinants of Channel Types

There is no single across-the-board solution for all manufacturers' channel decisions. However, there are certain guidelines that can assist a manufacturer in making a good decision. Factors that must be taking into consideration include:

Objectives of the firm

The objectives of the firm are the corner-stone that determines the kind of channel to be used in any given market. This is because it is the objective that will determine whether the channel to be selected should be long or short.

Legal Considerations

A country may have specific laws that rule out the use of particular channels or middlemen. France, for example, prohibits the use of door-to-door selling. Although private importers in Iraq may choose to deal through commission agents, Iraqi legislation prohibits state enterprises from dealing with third-party intermediaries in obtaining foreign supplies. Also, Saudi Arabia requires every foreign company which works there to have a local sponsor who receives about 5 percent of any contract.

The overseas distribution channel often has to be longer than desired. This is because of government regulations, a foreign company may find it necessary to go through a local agent/distributor. Channel width may be affected by the laws as well.

Managerial Resources

The management of distribution channels depends on to a great extent on the experiences that vest in the firm's managers. A firm that is entering an international market for the first time, might lack the expertise that is required to be able to choose and control short channels or the firm's own local subsidiary. Such firms would prefer to give the job to middlemen. Sometime, even well-established firms often seek the assistance of middlemen in cases involving new products or new segments that calls for the acquisition of a new type of experience.

Product Image

The product mage desired by a manufacturer can dictate the manner in which the product is distributed. A product with a low-price image requires intensive distribution. On the other hand, it is not necessary or even desirable for a prestigious product to have wide distribution. For example, Waterford Glass has always carefully nurtured its posh image by limiting its distribution to top-flight department and specialty stores. Although intensive distribution may increase sale in the short run, it is potentially harmful to the product's image in the long run.

Channel Availability

This is of course a major consideration as one will not expect to select a specific type of channel in a given country if:

- Such a channel does not exist
- It belongs to a competitor
- It does not wish to distribute your product.

Product Characteristics

The type of product determines how that product should be distributed. For low priced, high-turnover convenience products, the requirement are for an intensive distribution network. The intensive distribution of ice cream is an example.

For high-unit-value, low-turnover specialty goods, a manufacturer can shorten and narrow its distribution channel. Consumers are likely to do some comparison shopping and will more or less actively seek information about all brands under consideration. In such cases, limited product exposure is not an impediment to market success

One should always remember that products are dynamic, and the specialty goods of today may be nothing more than the shopping or even convenience goods of tomorrow. For example, computers which were once an expensive specialty product that required a direct and exclusive channel, today have become shopping goods, necessitating a long and more intensive channel.

Middlemen's Loyalty and Conflict

One ingredient for an effective channel is satisfied channel members. As the channel widens and as the number of channels increases, more direct competition among channel members is inevitable.

Local Customs

Local business practices, whether outmoded or not, can interfere with efficiency and productivity and may force a manufacturer to employ a channel of distribution that is longer and wider than desired. For example, because of Japan's multitier distribution system, which relies on numerous layers of middlemen, companies often find it necessary to form a joint venture with Japanese firms.

Domestic customs can explain why a particular channel is in existence. Yet customs may change or may be overcome, especially if consumer tastes change. For example Onkvisit and Shaw (1997: 486) reported that there are some 82, 000 British pubs, 50,000 of which are owned by brewing companies. The problem they face was the trend toward beer consumption at home. The pubs have had to adjust by emulating trendy American bars, selling more win and such food as hamburgers.

Control

If it has a choice, a manufacturer that wants to have better control over its product distribution may want to both shorten and narrow its distribution channel. However, control to be administered depends on the nature of the products and laws of such countries, and the products being marketed to.

In conclusion, there are other factors that affect channel decisions. However, most of these factors are inter-related.

3.5 Channel Management Decision

Whether the intermediaries are the employees of the firm's subsidiary or whether they are totally independent, there is a mutuality of interest between the supplying company and its channels' personnel and it is important that the best principles of management is employed.

After a company has determined its basic channel deign, individual middlemen have to be managed in such a way as to:

- Create distributor loyalty
- Ensure that distributors are adequately remunerated
- Train and develop distributors
- Determine standards of performance, and
- Evaluate performance against standard.

Self-Assessment Exercise
What are the factors that affect the length, width and number of marketing channels?

4.0 Conclusion

A product, no matter how desirable, must be accessible to buyers. A manufacturer my attempt to use a direct distribution channel by selling directly to end users abroad. The feasibility of this channel depends on the type of product involved. Generally, the sales opportunity created by direct selling is quite limited. Intermediaries are usually needed to move the product efficiently from the manufacturer to the foreign users.

5.0 Summary

This unit examined the various channel members involved in moving goods/services to the end users. These channels are classified into six. The channel chosen by marketing executives depends on the nature of the products and the expertise of the channel members. It also considered factors to be looked into before selecting a channel.

6.0 Self-Assessment Exercise

What are the factors that affect the length, width and number of marketing channels?

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Unit 3 Pricing Strategies

1.0 Introduction

Price is an integral part of a product. A product cannot exist without a price. It is difficult to think or talk about a product without considering its price. Price is important because it affects demand, and an inverse relationship between the two usually prevails. Price also affects the larger economy because inflation is caused by rapid price increases. However, price is not any more important than the other three Ps. Thus, price should never be treated as an isolated factor. This unit examines the importance of pricing on international marketing activities.

2.0 Objectives

At the end of this unit, you should be able to:

- explain the term 'price'
- state the importance of prices
- discuss pricing strategies
- explain factors that affects pricing strategies in a given market.

3.0 Main Content

3.1 Pricing

A sound international marketing strategy demands that a framework for decision making in the pricing area is evolved. In the absence of such a framework, the firm runs the risk of allowing its international pricing to run out of control. The problem becomes even more acute in an area of exchange anarchy and floating currencies.

Price is often misunderstood, especially by many executives. Consumers do not object to price. What they object to is the lack of relationship between the perceived value of the product and the price being charged. They want a fair price, and a fair price can be either high or low as long as it reflects the perceived value of the product in question. Price can be absolutely high from a cost standpoint yet relatively low from a demand standpoint, in relation to its value and other features.

Pricing the product is not an easy task. Marketers are usually careful as any mismanagement of a firm's pricing policy can easily lead to:

- Substantial variations in the price of the same product in different countries.
- Pressures for price reductions or bigger discounts resulting from variations
- The development of a grey market, by unscrupulous traders. A grey market is created where the product is purchased in a cheap market with the view of being sold in markets enjoying higher prices.

Price is described by many people as: fares, fees, charges, tuitions, rents, and assessment. In economic theory, we learn that price, value, and utility are related. But in marketing, price is defined as a value expressed in monetary medium of exchange. For example, when a consumer exchanged #1000 for a pair of shoe, the #1000 is the price being charged.

3.2 Importance of Price

Having an idea about the importance of price is considered utmost imperative to international marketers. This is because it provides guides on how price functions, and operates in different types of economy and in the industry. While discussing the importance of pricing, we shall limit our discussion to two areas: Importance to the economy and importance to the firm

Importance in the Economy

In capitalist economy, pricing is considered to be the key factor that regulates the economy. This is because the market price of products influences wages, rent, interest, and profit. That is, it influences the price paid for factors of production. It regulates the economic system, because it influences the allocation of these factors of production. It determines what to be produced (supply) and how much of these goods and/ or services (demand).

Importance in the Firm

The price of a product is a major determinant of the market demand for the item. Price affects a firm's competitive position and its share of the market. Hence, price has a considerably bearing on a company's revenue and profit. The price of a product also affects the firm's marketing programmes. In product planning, for example, management may decide to improve the quality of its product or add differentiating features. This decision can only be implemented if the market will accept a price high enough to cover the cost of these changes.

However, there are certain features that limit the importance of pricing functions in a company's marketing programme and even in the economy. For example, differentiated product features or a favourable brand at times may be more important to consumers than the price. This is true, because it is a known fact that one of the objectives of branding is to decrease the effect of price on the demand for a product. These forces tend to make price less responsive to changes in demand and supply.

In addition, the current state of the economy has a considerable influence on the importance that business executives attach to pricing in relation to other marketing activities. For example, when economic conditions are good and consumers feel relatively affluent, price would not be rated as important as product planning or promotional activity, but during the period of recession and inflation, marketing executives consider price and pricing strategies extremely important and major contributors to marketing success.

3.3 Pricing Objectives

No marketing activities can be carried out without a well defined objectives and pricing is not an exception. It is imperative for management to decide on its pricing objectives, before determining the price itself. Discussed below are some of the objectives that a would-be international marketer should consider while setting price on their products or services.

1. Return on Investment

Achieving target return on investment is mostly employed by manufacturers that are leaders in their industry, for example Coca-Cola. The reason behind their use of the method is that being a dominant firm in the industry, they set pricing goals more independently of competition than other smaller firms in the industry. The concern of marketing executives here is to determine a price which will satisfy the needs of the consumers on one hand and which will at the same time enable the firm to attain a preset return on the capital or investment involved.

2. Market Stabilisation

Here the intention of the marketing executives is to operate in a market in such a way that little or no disturbance of competitors take place. Adhering to a pricing objective whereby one follows the recognised leader of the market (such as Toyota, Honda, Mercedes; Vitafoam, and Mouka foam etc.) is a sound way for maintaining stability. The marketing implication is that one has to identify the leader in each country and aim to operate a pricing policy which upsets its cost.

3. Maintain or Improve Market Position

Here, firms can decide to reduce the price of its products with the hope of attracting its competitor's customers, thereby increasing its own market share. Another firm may have the objective of maintaining its present market position. For example, it is assumed that MTN is a leader in telecommunication with 90% share; it may decide to maintain this position in Nigerian markets and even surrounding countries. This firm instead of reducing or increasing its price will use other marketing mix combinations to stabilise and maintain the existing price, which it feels will guarantee its position in the market. Such ways include promotion; MTN sponsored 'Who wants be a millionaire' and FIFA world Cup in order to maintain her position in African markets.

4. Meet or Follow Competition

This is a perfectly legitimate objective in situations where one enters markets for the first time or where one is operating in markets in which one or more competitors enjoy a dominant position. For instance in Nigeria, Coca-Cola Soft Drink Company has dominated the market, thus other soft drinks such as Limca, Pepsi, and Mirinda follow the price fixed by this company. The assumption is that such competitors have been in the markets for some time, and therefore they have had an opportunity of testing the validity and acceptability of their existing prices.

5. Preventing New Entry

A firm may wish, as part of its pricing objectives, to take all the tactical steps within its power to stop a competitor from entering the market or part thereof. Such pricing objective must be handled with care, because it may be based on the fallacy that competitors are fully aware of the cost of production and distribution, and will be deterred from entering a market which is unlikely to offer fair rewards.

This is of course a dangerous assumption, in as much as not every competitor is efficient and painstaking in the way he assembles data about markets and costs. Many competitors simply follow others blindly, and in such an event, a marketer who seeks to prevent new entry through low prices may find himself faced with price war in which nobody is likely to earn a living. This risk is particularly high in international marketing where one is likely to encounter competitors who are particularly ill-informed about the cost realities of marketing in foreign countries.

6. To Maximise Profits

This is one of the objectives that most firms both local and international consider important while taking decisions on pricing objectives. The emphasis is because 'profits' is the corner-stone for establishing a business. Without profit, a firm cannot acquire its resources neither can it produce goods and services? In addition, it will be difficult for a firm that does not make profit to survive neither can it grow and expand.

Although, the term 'profit maximisation' is not bad in economic theory, however, modern marketers frown at it. They prefer to use the term 'profit optimisation' which signifies a profit level where sellers and buyers are both better-off and happy. They condemn profit maximisation, because in the mind of the consumers, it is associated with profiteering, high prices, and monopoly, which satisfy only the sellers and does not take into consideration what consumers or buyers will benefit.

3.4 Pricing Strategies

A pricing strategy consists of all the principles and tactics associated with putting a price on a product or service with the hope of achieving a defined objective in competitive markets. For any pricing strategy to be effective and achieve its stated objective, it must be planned with careful consideration of the following factors:

- The company's competitive size and position in the market
- The company's resources, objectives and policies
- The competitors pricing strategies
- The buying behaviour of the target market
- The stage of the product life-cycle,
- The character of the economy.

Self-Assessment Exercise

Briefly itemise the factors to be considered before adopting any pricing strategy.

3.4.1 International Marketing Strategies

Discussed below are some of the strategies available to international marketers.

1. Cream Skimming Pricing

It aimed to set a price which is at top end of the range of possible prices. The seller will continue with this price, until he feels that he wishes to penetrate the market more deeply. At that point, he would lower the price, especially where he has evidence that demand elasticity exists.

Skimming strategy is particularly useful where the product is new and the firm has production limitations and it is not fully aware of the market situation. Market skimming can also act as a hedge against possible mistakes in setting the price. It is always easier to correct a price downwards than upwards.

Market skimming is quite popular in international marketing. The size of the potential market is such that a small penetration of the global market can be sufficient to meet the immediate marketing objectives. The high initial prices can generate the level of revenue and profits which could justify a major market development.

2. Penetration Pricing

Companies that use this strategy set a low initial price in order to reach mass market immediately. It is a more aggressive pricing strategy than the scream skimming pricing. The strategy can be more satisfactory when the following conditions exist:

- Evidence exist to show that demand is sensitive to price
- The production process is such that substantial reductions in cost will occur when a large-scale operation is established
- There is an inadequate innovators in the market to sustain a market skimming strategy
- Competition can be forestalled through an aggressive low price.

A full understanding of the relationship between the price and the product life cycle is an essential element in a successful penetration strategy. While it works with a product with lasting life cycle, it can be disastrous if it is based on a product with a very short life cycle.

Notwithstanding, a firm that has a good international distribution network is probably well positioned to exploit the life cycle on penetration basis. However, the fact that life cycle may be short can be offset by the rapidity at which international markets can be covered.

3. Pricing to reflect Product Differentiation

A company that has a wide range of products serving the same market can choose to highlight the differentiation among these products through variation in prices, for examples UAC and PZ. Such prices do not aim to reflect the actual difference in cost of production of the products in the range. They seek to attach a subjective price tag to each product, thus appealing to a range of segments. For example, Zico and Sony wrist watch companies, can offer two different models for different segments of the market; one at a very high price, and the other at a low price. The same apply to electronic and refrigerator market. Some features are more in one than the other to differentiate class product and price as well.

As long as the products are seen as different and the more expensive product offers a sufficient number of unique selling points to reflect the differentiation, every one that purchases them would be happy.

Such strategy can have important marketing implications. For instance, the firm must ensure that the game is played consistently throughout the world. The strategy is sure to fail, if in one country the price differentiation is adhered to and in another market it is ignored and the products sold at more or less the same price.

The strategy works better where the price is determined at one centre than where it is determined at local levels as a result of decentralisation.

4. Loss Leader Strategy

The underlying reason for this strategy is that by pricing one product at a very low price, the consumer will be attracted to the supplier's market place and at the point he may purchase other commodities which are priced in the normal way. That is, the low price of the loss leader product acts as promotional bait to the consumers. The strategy is particularly adopted by superstores, super-markets, and retail stores, etc. They advertise a product and indicate a very low price for it. The consumer will probably buy other items in that store once he has taken the trouble to visit the super-market.

It is also useful in situations where derived demand exists. Derived demand occurs where the demand for one product stems from the existence or availability of another product. For example, the demand for razor blade occurs only when the consumer possesses razor. Here, a marketer would try to achieve his profit objectives through the sale of the blades.

As international marketers, there is need to consider the following factors while adopting this strategy:

- Loss leadership may contravene the laws of certain countries where selling a product on this basis is considered an offence.
- In some markets, it would become difficult to raise the price once a decision has been taken to sell the product very cheap.

5. Following Competitors and their Price Practices

Here, a marketer works with the notion that the competitor (s) are more experienced or knowledgeable than he is, and that the best strategy will be to take notice of what they are doing. This approach is recommended only where direct competitors exist or where one has sufficient confidence in their commercial and marketing activities. It may be a bad practice to follow competitors who are known for their poor judgment and performance.

However, one may follow competitors in one of these ways:

- Price one's product at the same level
- Price the product below competitors' levels
- Where one has distinct unique selling points, the product can be priced above competitors levels to reflect such differentiation.

At times, problems use to arise when one tries to follow the practice of competitors, who have no pricing policies of substance or where one misinterprets the underlying motives of such practices. For example, if the competitor that one is trying to emulate reduces his price, in an attempt to reduce slow-moving stocks at the end of the financial year, it will not be wise to adopt such a strategy.

For the international marketers, the big problem is how to identify a competitor who is suitable in a large number of markets. In the absence of such a competitor, one is compelled to follow the practices of different competitors in different markets.

6. What the Traffic Will Bear

The basis here is that marketers seek to price their products at a high level as they can without jeopardising sales. This strategy is consistent with a market skimming strategy and its advantage is that it allows ample latitude for future reductions. For this strategy to work well, it needs a bit of research. This is because, one cannot sensibly establish what the traffic will bear, unless one conducts some investigations.

This approach to pricing can be very suitable in situations where the product is expected to have a relatively short life span and a marketer wishes to maximise the returns as quickly as possible with the view of obtaining a rapid investment recovering. It needs to be dynamic in order to continually to satisfy the bulk of the international consumers.

7. Resale Price Maintenance

This strategy is mostly used by manufacturers. Those that adopted this strategy set the price of their products to the international distributors and equally set the price that the distributors will sell the products.

At times, the set list price will just be a price to the distributors. Under this arrangement, the manufacturers only use the list price as a base on which to compute the discounts to be given to the distributors. But for some manufacturers, the list price is so rigidly enforced that the distributors franchise may be cancelled if they do not adhere strictly to the list price.

8. Psychological Pricing

This strategy is also known as 'odd pricing.' Firms that adopt this strategy usually set the price of their product at such odd amounts that psychologically it will appear in the mind of the consumers that the price has been reduced while significantly the reduction is nothing. For example, a marketer may decide to fix the prices of his product at #95.00, instead of #100 or #99.9 instead of #100. This is commonly practiced by super-stores and super-markets, most especially at the festivity periods, such as Christmas and Sallah. This type of pricing strategy appears in the minds of the consumers that the price has been reduced, while the reduction is nothing significantly.

9. Dumping

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 low as to be detrimental to local producers of the same kind of merchandise. For example, Japanese banks in California were accused of dumping money in U.S market by pricing their loans at an interest rate lower than what U.S banks charged.

3.5 Crucial Factors for pricing Strategies in a Given Market

The determination of the appropriate pricing strategy for a product or services to adopt in a defined competitive environment is not an easy task for management. This is because of uncertainties that surround the decision makers due to incomplete information/data coupled with other factors that influence final decision of a management. Notwithstanding, some of the crucial factors that are considered are briefly discussed below.

1. Corporate Objectives of the Firm

This is the cap-stone to start with. Until one knows what the firm wishes to achieve, one cannot determine a sound price strategy for the firm's products. For example, a firm may achieve a volume of profit by catering for a small number of consumers with a high quality product and at a high price while, a competitor may opt for a different approach. He may wish to attain a substantial penetration of the market with a low quality product at a lower price and yet achieve virtually the same amount of profit.

The underlying consideration in each situation will be different. It is therefore important for a person responsible for determining the pricing strategy to understand these considerations, and the goals of the firm.

2. Competitors Reactions

Assuming that the firm's corporate objectives are clear and that they have been communicated to all managers, one must gauge the impact that competitors may have on one's freedom to manipulate one's price. In doing so, the firm has to consider the reactions of other competitors in the market and in the industry. A pricing strategy set without the consideration of competitors' reactions in mind would be detrimental to the firm's growth and realisation of its objectives.

3. The Firm's International Structure

A firm that has structured its international operation on a centralised pattern is more likely to develop strong pricing guidelines emanating from the central authority. It is much difficult to exercise control procedures of guidelines on a decentralised enterprise. It is common to find price variations among markets organised on the decentralised principles than on the centralised structure. As international marketers, you consider the structure of a firm before taking final decision in this regard.

4. Legal Constraints

Each country has its own laws and regulations that guide the activities of business, both in pricing, transfer pricing, and other related issues. Knowledge of these laws and regulations provides impetus for consumers' freedom and economy at large. For example corruption is now a global issue. Even though, individual countries frown at it, it still exists.

5. Target Share of the Market

The market share targeted by a firm is a major factor to consider when a decision is to be made on the type of pricing strategy to be adopted. For instance, a firm that aims at increasing its market share will usually adopt penetration pricing strategy by lowering the prices of its products, with the hope of attracting more customers. While a company that is satisfied with its current share of the market, will only maintain and guard the prices for its products.

Self-Assessment Exercise

Briefly state conditions under which price may not be considered important to a firm.

4.0 Conclusion

To set price, the concerns of all affected parties must be addressed. A manufacturer needs to make a profit. So do retailers, who demand adequate margin for their services. Moreover, competitors' reactions in terms of their price responses must be anticipated. Finally, it is necessary to take into account both consumers and the value they place on the product.

5.0 Summary

In this unit, skimming pricing, price to reflect product differentiation, and penetration pricing were discussed. Crucial factors in determining pricing strategies in international marketing were also examined.

6.0 Self-Assessment Exercise

Discuss the factors that affect pricing strategies in a given market.

7.0 References/Further Reading

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Unit 4 International Service

1.0 Introduction

Services are components of world trade, the link between service and goods are necessary. In essence, service and goods go hand in hand. Service is playing a very great role in the world economy. Despite these, services have some problems while trying to deliver them across borders. The focus of this unit is on international services as they affect international marketing.

2.0 Objectives

At the end of this unit, you should be able to:

- explain the role of service in international marketing
- explain the complex nature of international trade
- explain the basis used in making international business for service a success
- identify stand-alone service and how it is becoming more important to world trade
- identify competitive advantage of firms in the service sectors.

3.0 Main Content

3.1 Differences between Service and Goods

Kotler et al (2002) define service as any act or performance that one party can offer another and does not result on the ownership of anything, its production may or may not be tied to a physical product.

To differentiate the two therefore, the following definition would serve.

A good is an object, a device, a thing; while service is a deed, a performance, and an effort.

Czinkota et al (2002) believe that service firms do not have products in the form of reproduced solutions to a customer's problems. They have processes as solutions to such problems. Service is said to be the fastest growing sector in the world trade. Service sector is becoming a global phenomenon.

3.1.1 Link between Services and Goods

Goods are produced and sold across borders. One interesting aspect is that some goods cannot be sold without accompanying it with service. For instance, the purchase of an aircraft, which is a good (product), is most often followed with services like training of personnel, maintenance, and continuous technological update.

The link between service and goods can be demonstrated in an offering by an airline services as shown in figure 4.1.

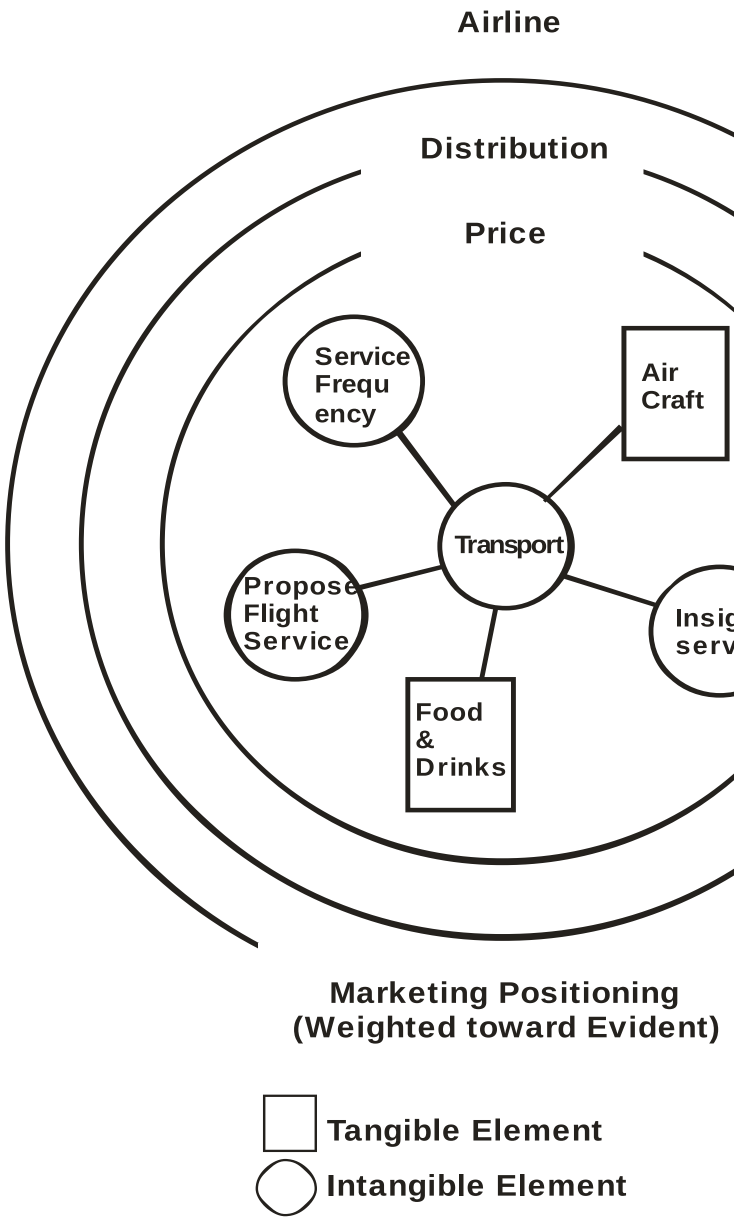
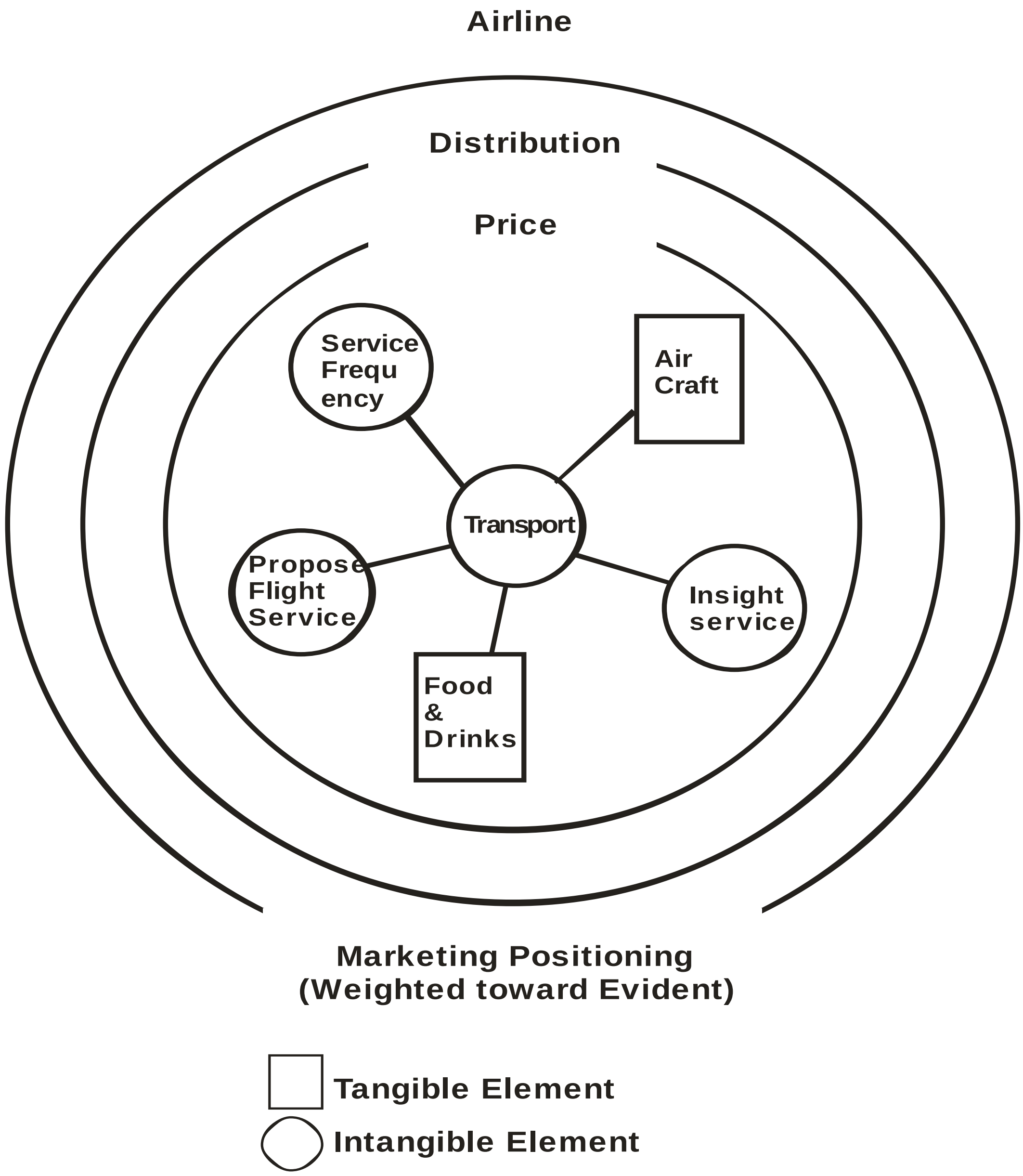


Fig. 4.1: Goods and Services Compared



Just the way goods are accompanied with service for customers' satisfaction so also that service provision cannot be complete without a product in use. In essence, physical goods are used for service provision.

In the diagram above, an airline that provides transport service has a plane as a product. How perfect the plane is and if it will have positive or negative effect on service provision is another thing. As a passenger boards the plane another physical product is given to him in form of food and drinks yet he has in-flight service, service frequency and pre and post light service. In essence, service and goods complement each other in a successful customer's satisfaction.

Self-Assessment Exercise

Differentiate between service and a product.

3.1.2 Stand-Alone Service

Service mix is divided into five categories, namely:

- Pure tangible good.
- Tangible goods with accompanying service e.g computer and installation service.
- Hybrid-offering with equal part of service and goods i.e. patronising restaurant for food and service.
- Major Service with accompanying minor goods and services, e.g. traveling in a plane and being served with food.
- Pure service - This is purely services i.e. a psychotherapist.

The fifth division of service which is pure service is what you learn here and to know more about it, you must look at some basic characteristics.

Intangible: It means the service cannot be seen, tested, felt, learned or smelled before they are bought. To succeed in selling this type of service you need to know one of the following marketing tools:

- Place
- People
- Equipment
- Communication material
- Symbols
- Price.

Variability: Service provision is done by different people even if they are working for the same organisation. Where and when they are provided brings about variability in service provision. About three areas if properly looked into service provision will reduce variability.

- Investing in goods, hiring and training procedures
- Standardise the service performance process throughout the organisation
- Monitor customer satisfaction.

Perishability- Service cannot be stored. For instance a plane that takes off with 10 empty seats cannot be redeemed or an hotelier who could not get a guest in his room for the previous night cannot regain such loss. The marketing idea is to improve on the demand and supply system.

In Demand-

- You differentiate pricing
- Cultrate non-peak demand
- Develop complementary service
- Reservation system should be developed.

In Supply side-

- Part time worker should be used for peak period
- Introduce peak time efficiency

- In creased consumers participation
- Shared service can be provided
- Develop facilities for future expansion.

Inseparability: The provider of service and the service itself is seen as same i.e. a cashier in a bank attending to a customer rudely is seen as the bank and he is equated with the bank.

Self-Assessment Exercise

Discuss four basic characteristics of an international business?

3.1.3 The Role of Service

Service, be it in the US or Nigerian economy, has been able to:

- Create jobs
- Service provision is increasing worldwide; therefore, it has generated enough revenue for the US. In year 2000 alone the revenue was $ 295 billion.

3.2 The Role of Global Service in the World Economy

In the world, service provision has two basic areas that have touched the global economy.

- There has been a rise in service sector globally; as such some economy's GDP has improved due to service provision. For instance in Argentina, it accounts for 65% GDP, 64% in Mexico and 65% in South Africa.
- A lot of economies are shifting away from traditional economic development pattern and are concentrating on developing strong service sectors. Nigeria has even created a ministry for tourism, to encourage service provision.

3.3 Global Transformation in the Service Sector

Service provision worldwide has increased tremendously. There are basically two factors that have lead to the global transformation in the service sector. These factors include:

Technology: Once we talk about technology, computers comes into mind. For instance, architectural work or car design that would have been done manually is been designed by computers thereby given room for growth in providing services. Technology has equally reduced the cost of communication. Service provision is increasing without the presence of human being i.e. banking service with automatic teller machine. This, equally, has led to growth in service provision worldwide.

Corporate websites have taken advantage of this. Distance and barriers have been removed. Customers in Japan and Nigeria need not to worry about distance because technology has removed that barrier while transacting business.

Environment: In this situation, regulation and deregulation has increased the chances of service provision worldwide.

- Reduction in government regulation, which has brought about deregulation, has given rise to service provision.
- Deregulation in the transport sector has given rise to increase in service worldwide.
- Regulation of service industries by their service groups is another reason i.e. fields like law; healthcare has contributed to this.

Self-Assessment Exercise

1. List five (5) area of pure service that you know.
2. List four (4) characteristics of service.

3.4 Problems in International Service Trade

There are basically two problem areas of international service trade. They include:

3.4.1 Data Collection Problem

It is difficult to track down information on people who go round to provide service worldwide. In fact, the information is sketchy. For example, an Irish citizen working for a Canadian financial consulting firm from the headquarters in Sweden advises an Israeli citizen living in India on management of funds deposited in a Swiss bank. To determine the import and export of this business diversion is difficult.

3.4.2 Global Regulation of Services

This is considered from two angles, namely:

- Barriers to entry; and
- Problem of performing services abroad.

Barriers to entry are always explained by countries with reference to national security and economic security. The host country may create barriers based on protecting infant industry.

Another area of global regulation of services is performing services abroad. Once a service provider has gotten access to a local market, he is faced with the problem of discriminating and non-discriminating regulations. These regulations hinder service providers to penetrate some markets.

The General Agreement on Trade on Service (GATS) in 1995 came up to regulate services worldwide. This is similar to GATT.

3.5 Service and E- Commerce

Electronic commerce and service have succeeded in removing distance between the user and the provider of service. Government population across border has equally been removed by providing service electronically. This equally has led to businesses that are small to look big in the internet. It is believed that there are some providers of service and users that have never met face- to-face.

Internet has been the basis of e-commerce. One should take note that Internet has occurred in different countries at different time and not all have access to it.

Language could be another barrier on the Internet. Many companies do not permit any interaction on their websites, thus missing out in feedback from visitors.

3.6 Typical International Services

The following are the commonly practiced international services.

- Construction, design and engineering services
- Insurance services
- Communication services
- Teaching services
- Consulting services
- Tourism

3.7 Starting to Offer Services Internationally

If you are to go into service provision internationally you are to:

- Look at the service you are to provide. Is it in support or in conjunction of goods? Is this the most acceptable method to follow?

Czinkota et al (2002) observed that service providers, whose activities are independent from goods, need a different strategy. These individuals and firms must search for market situations abroad that are similar to the domestic market.

Another thing that a service provider must identify and understand is the points of transition abroad.

Service providers should equally stay informed about international projects sponsored by domestic organisations, the World Bank, and the United Nations etc.

Self-Assessment Exercise

List five mostly practiced areas of international service.

3.8 Strategic Indicators

For you to be successful in an international service provision, you must:

- Determine the nature and the aim of the service offering- that is, whether the services will be aimed at people or at things and whether the service act in itself will result in tangible or intangible actions.
- As a manager you should consider other tactical variables that have an impact in the preparation of the service offering. For instance, if you are carrying out a research for

services, measurement of capacity and delivery efficiency often remain highly qualitative rather than quantitative.

- Personnel issue must be looked into, if, you want to provide service internationally.
- Managers of service that prefer going abroad should have close interaction with their customers.
- Pricing and financing areas should equally be looked into because service is not stored. You should have in mind the demand and supply situation of service, so as to have greater flexibility in pricing.
- In distribution, the service provider should have in mind that shorter channels of distribution are better.

Self-Assessment Exercise
Discuss the difficulty Nigerians may face in exporting their Services outside this country.

4.0 Conclusion

Service and goods must be used to complement each other. Service is intangible and goods are tangible. Service has four characteristics which include: intangibility, perish ability, variability and incomparability.

Service has been able to create jobs and generate more revenue. In global service provision, it has led to increase in nations' GDP and they are shifting from traditional method.

Technology and environment has transformed service provision worldwide. Data and regulation are some of the major problems of service worldwide.

5.0 Summary

Examined in this unit are services and goods; the role of services while providing goods for consumer satisfaction; problems of the service sectors,; and strategic indicators of service industries.

6.0 Self-Assessment Exercise

Discuss the six types of services as enumerated in this unit.

7.0 References/Further Reading

Czinkotta, M R, Ikka, A R, & Michael, H M. (2002)._*International Business,* (6th ed.). Southwestern: USA, Thompson Learning.

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Unit 5 Marketing Communications in World Market

1.0 Introduction

Modern marketing calls for more than developing a good product, pricing it effectively, and making it accessible to target customers. Companies must also communicate with their present and potential customers, retailers, suppliers, other stakeholders, and the general public. Every company is inevitably cast into the role of communication and promotion. For most companies, the question is not whether to communicate but rather what to say, to whom and how often. This unit examines the influence of communication on international marketing.

2.0 Objectives

At the end of this unit, you should be able to:

- illustrate the communication process
- explain communication mix
- explain the factors that affect communication decisions.

3.0 Main Content

3.1 The Communication Process

Too often, marketing communications focus on overcoming awareness, an image, or a preference gap in the target market. But this approach to communication has several limitations. It is too short-term and too costly, and most messages of this type fall on deaf ears.

But these days, communication is being viewed as the management of customers' buying process over time, during the pre-selling, selling consuming and post-consuming stages. This is because, customers differ, and communication programmes need to be developed for specific segments, niches, and even individuals. Given the new electronic technologies, companies must ask not only "How can we reach our customers?" but also "How can we find ways to let our customers reach us?"

Therefore, the starting point in the communication process is thus an audit of all the potential interactions target customers may have with the product and company. For example, someone who wishes to purchase a car would talk to others who have used such cars, see ads, read articles in newspapers and magazines, and observe cars in the show rooms. Hence, marketers need to assess which of these experiences and impressions will have the most influence at the different stages of the buying process. This understanding will help marketers allocate their communication funds more efficiently.

To communicate effectively, marketers need to understand the fundamental elements underlying effective communication. Figure 1 shows a communication model with nine elements. Two elements represent the major parties in a communication- sender, and receiver. Two represent the major communication tools- message and media. Four represent major communication functions- encoding, decoding, response, and feedback. The last element in the system is noise (i.e., random and competing messages that may interfere with the intended communications).

Model explains the key factors in effective communication. Senders must know what audiences they want to reach and what responses they want. They must encode their messages in a way that takes into account how the target audience usually decodes messages. They must also transmit the message through efficient media that reach the target audience and develop feedback channels to monitor the receiver's response to the message.

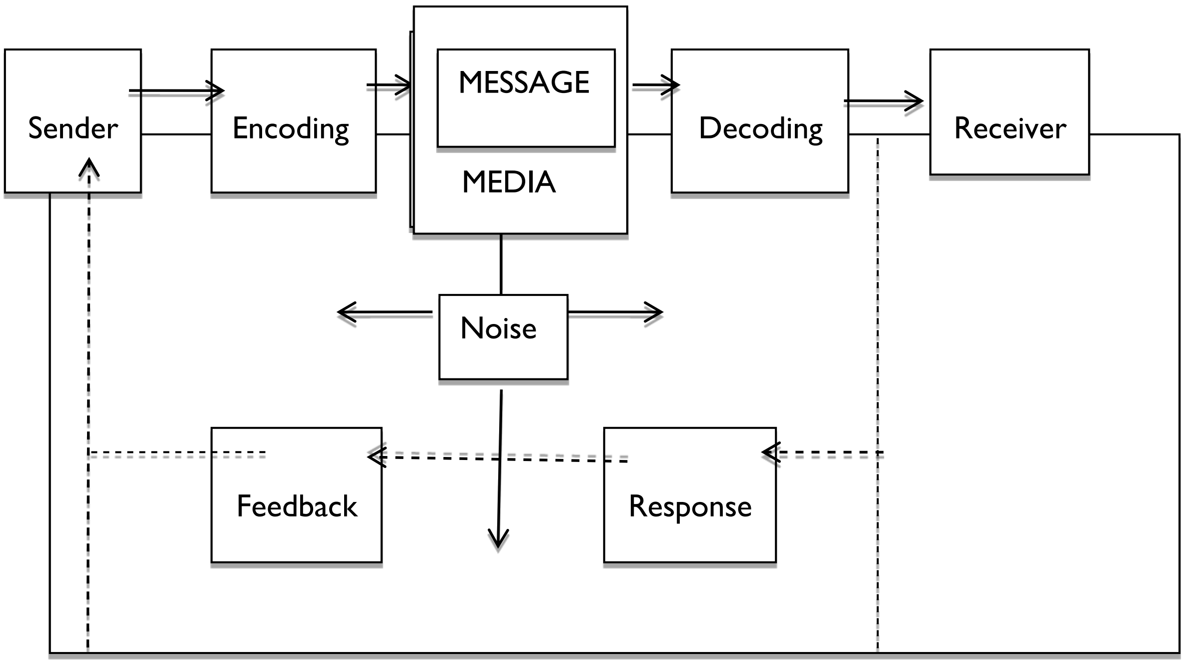

Fig. 5.1: The Communication Process

Source: Kotler, P(1997). *Marketing Management–Analysis, Planning, Implementation and Control*. New Jersey: Prentice-Hall.\

For a message to be effective, the sender's encoding process must match with the receiver's decoding process. Thus, the best messages are essentially signs that are familiar to the receiver. The more the sender's field of experience overlaps with that of the receiver, the more effective the message is likely to be. This requirement puts a burden on communicators from one social stratum who wants to communicate effectively with another stratum.

The sender's task is to get his or her message through to the receiver. The target audience may not receive the intended message for any of three reasons:

- Selective attention
- Selective distortion; and
- Selective recall.

The communicators should look for audience traits that correlate with persuasibility and use them to guide message and media development. Kotler (1997) observed that 'people of high education and/or intelligence are thought to be less perusable, but the evidence is inclusive. Persons who accept external standards to guide their behaviour and who have a weak self-concept appear to be more persuasible, as are people who have low self-confidence.

Communicators also need to think about their audience awareness that the communicator is attempting to persuade them. People who have been exposed to previous persuasion attempts have a different response to persuasion than those who have not been exposed to such attempts. Fiske and Hartley as reported by Kotler (1997) have outlined some general factors that influence the effectiveness of a communication:

1. The greater the monopoly of the communication source over the receipt, the greater the recipient's change or effect in favour of the source.

2. Communication effects are greater where the message is in line with the receiver's existing opinions, beliefs, and dispositions.

3. Communication can produce the most effective shifts on unfamiliar, lightly felt, peripheral issues, which do not lie at the center of the recipient's value system.

4. Communication is more likely to be effective where the source is believed to have expertise, high status, objectivity, or likeability, but particularly where the source has power and can be identified with.

5. The social context, group or reference group will mediate the communication and influence whether or not the communication is accepted.

Self-Assessment Exercise

Explain factors that influence the effectiveness of a communication.

3.2 Marketing Communication Mix

The marketing communication mix consists of the combination of all the communication variables or tools in a given target market by an organisation with the hope of satisfying the market and to achieve a defined objective.

There are two ways to look at the components of the marketing communication mix. The first view that can be described as the broad view states that each of the 4Ps should be included in the marketing communication mix. According to this view, the product's styling, the colour and shape of the packaging, price and place all communicate something. The second view which can be termed the narrow view states that the marketing communications mix consist of the subset of marketing tools that are primarily communicational in nature. They are the tools normally classified under promotion, one of the 4ps. They are called promo-tools and include various forms of advertising, personal selling sales promotion, and publicity.

3.3 Developing Effective Communication

Here we would examine briefly the ways of achieving effective communication system.

3.3.1 Identifying the Target Audience

A marketing communicator must start with a clear target audience in mind. The audience could be potential buyers of the company's products, current users, deciders or influencers.

The audience could be individuals, groups, particular publics, or the general public. The target audience will critically influence the communicator's decisions on what to say, how to say it, when to say it, where to say it, and whom to say it.

A major part of audience analysis entails assessing the audience's current image of the company, its products and its competitors. An organisation seeking to improve its image must have great patience. Images are sticky; they persist long after the organisation has changed. For example, a famous university might have gone down in her educational standard, yet it continues to be highly regarded in the public mind. Examples include Harvard, Oxford, Cambridge universities, ABU and UI.

3.3.2 Determining the Communication Objectives

Once the target market and its characteristics are identified, the marketing communicator must decide on the desired audience response. The desired ultimate responses are purchase, high satisfaction, and favourable word-of-mouth. Purchase behaviour is the end result of a long process of consumer decision making. The task of marketing communicator here knows how to move the target audience to higher states of readiness to buy. There are various ways of achieving this; however, this depends on the nature of the products and characteristics of the markets available.

3.3.3 Designing the Message

Having defined the desired audience response, the communicator moves to developing an effective message. Ideally, the message should gain attention, hold interest, arouse desire, and elicit action (AIDA). Formulating the message will require solving four issues: what to say (message content), how to say it logically (message structure), how to say symbolically (message format), and who should say it (message source).

3.3.4 Selecting the Communication Channels

The communicator must select efficient channels of communication to carry the message. The channel chosen depends on the nature of the products and availability of experts who will carry the message to the target markets. Communication channels are of two broad types: personal and non-personal.

Personal communication channels involve two or more persons communicating directing with each other. They might communicate face to face, person to audience, over the telephone, or through the mails. Personal communication channels derive their effectiveness through the opportunities for individualising the presentation and feedback.

The non-personal communication channels are without personal contact or interaction. They include media, atmospheres, and events. Media consist of print and broadcast media etc. Atmospheres are 'Packaged Environments' that create or reinforce the buyer's leanings toward product purchase.

3.3.5 Establishing the Total Promotion Budget

One of the most difficult marketing decisions facing companies is how much to spend on promotion. John Wanamaker observed, as reported by Kotler (1997) that "I know that half of my advertising is wasted, but I don't know which half." This is the dilemma of most management executives.

However, there are some methods through which companies should be able to determine the amount to be spent on promotional activities. These include:

- Affordable method
- Percentage- of-sales method
- Competitive-parity method
- Objective and task method, and so forth.

3.3.6 Deciding on the Promotion Mix

Companies face the task of distributing the total promotion budget over the five promotional tools- advertising, sales promotion, public relations and publicity, sales force, and direct marketing. Company executives are always searching for ways to gain efficiency by substituting one promotional tool for another. All the five promotional tools are good, but their selection depends on the availability of funds, nature of the products, stages of product life cycle, accessibility of the target markets and the objectives the company want to achieve.

3.4 Factors that Affect Communication Decision in International Marketing

Many factors are taken into consideration by international marketers while deciding on communication issues, some of these are:

3.4.1 The Firm's Objectives

The objectives of a firm spell out the direction of the firm's activities, of which communication is inclusive. For example, companies that are in pursuit of short term objectives will require communicative strategies that are quite different from the ones that are in pursuit of long term objectives.

3.4.2 The Nature of the Product

The nature of the product strongly determines the kind of communication policy that a firm should adopt. This is because certain types of goods lend themselves to a highly standardised style of promotion, while others by their very nature call for a high degree of differentiation. For example, technical goods call for a higher level of standardised communication policy as compared to fashion-based products.

3.4.3 Legal Considerations

The legal system of a country often has an important impact on what can and what cannot be done in the field of marketing communications. What may be acceptable in one country may be against the law in another country. For examples:

- In Norway and Sweden, television advertisement is not permitted

- In Belgium and France, cigarettes and alcoholic are permitted on television.
- Austria and Italy regulate television advertisement using children.

Therefore to ensure that one does not encounter any problem, it is important that an international marketer gains a broad understanding of the legislation of each target market.

3.4.4 Media Availability

An international marketer must never assume that the type of media he had been accustomed to at home may likely be found in foreign markets. For example, in some countries, the media that one wants may not be in existence. Even if they exist, the number may be too few to meet the demand for it. Cinema advertising for instance, may be popular in one country, while in another it may be totally non-existent. An international marketer that wants to know about the media availability in the foreign markets can seek for assistance from some reputable advertising agents. These agents possess useful information on media availability and they provide necessary documents.

Self-Assessment Exercise

Briefly explain the factors that affect communication decisions in international marketing.

4.0 Conclusion

The international marketers' communication responsibilities go beyond disseminating information to target customers. The company must communicate effectively with other parties in its task environment, external publics and internal publics. Communication is so essential in marketing that the question companies ask is not whether to promote but how to spend and in what ways.

5.0 Summary

This unit looked into communication as panacea for achieving international marketing objectives. Communication mix and factors considered for total promotion budget were discussed. Also discussed in this unit were factors to consider in selecting communication channels.

6.0 Self-Assessment Exercise

Briefly explain the factors that affect communication decisions in international marketing.

7.0 References/Further Reading

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