MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
SUMY NATIONAL AGRARIAN UNIVERSITY
ECONOMICS AND MANAGEMENT FACULTY

Public Management and Administration Department

STRATEGY OF INTERNATIONAL AGRARIAN MARKETING

Methodical recommendations for practical classes for english-speaking students

SUMY-2021

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of master's degree
of speciality 073 "Management"
Education Program "Administrative management"
for daily form of studying

SUMY-2021

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INTRODUCTION

Methodical recommendations for practical classes and individual work of “Strategy of international agrarian marketing” discipline for english-speaking students of master’s degree of speciality 073 “Management”, education program“Administrative management” for daily form of studying are designed relatively to the curriculum of “Strategy of international agrarian marketing” course.

The main goal of discipline’s studying is the formation of students’ theoretical and practical knowledge in conducting marketing activities in agriculture needed to achieve commercial objectives of the business.

Objectives: holistic formation of students’ imagination about the specifics of marketing in agriculture; mastering categorical apparatus used in carrying out marketing activities; forming a system of knowledge about the theoretical foundations marketing environment analysis and evaluation of its attractiveness for activities in the agricultural sector; assimilation methods for processing and marketing information in business; identification of key components and features of building marketing policy on agricultural markets; forms of cooperation between business partners in trading networks; features of communication policy on agricultural markets; especially the formation of a marketing policy on agricultural commodity markets; studying the peculiarities of different marketing strategies; understanding of marketing communication policy on agricultural markets; acquiring skills in shaping marketing policies of the company; provide a framework for the usage of theoretical knowledge in practice.

As a result of academic discipline’s study of a student should:

know: features of Agrarian marketing, specificity and level of usage, the concept of agrarian marketing environment in particular economic, social, cultural, political and legal environment, especially the segmentation of agricultural markets, its stages and factors of influence, understand the process of marketing research in agricultural markets, basic forms and strategies entering the markets, all the components of the marketing mix, especially commercial policy, the formation of a trade brand; features development of pricing strategy and the classification of prices that are found in marketing; various methods of communication and distribution channels of agricultural products.

be able: to conduct marketing research of the agricultural market using various instruments; to conduct market segmentation, to analyze the environment of marketing, expect the price of goods, to choose the best channel of product’s distribution, to develop brand product and to promote this product in the market using various methods of marketing communication plan and to monitor the agricultural marketing, to develop job descriptions and provisions for the establishment of marketing in agribusiness..

Practical classes are the main element of “Strategy of international agrarian marketing” course curriculum. Rational organization of practical studies is the important factor of effective mastering of theoretical bases of discipline that makes possible to use got knowledge and skills in practical tasks and problems solving.

Studying the discipline during the practical employments allows forming the practical skills of decisions making, to provide the forming of modern economic thinking, to form the skills of practical incomes, costs and profit analysis; consumer behavior understanding; making marketing research and searching for different types of marketing information; segmentation and positiong; analysis opportunities and ways of international market entering; creating marketing plans and developing marketing strategies in agriculture.

Content module 1. THEORETICAL FOUNDATIONS OF INTERNATIONAL MARKETING AND DIAGNOSTICS OF ITS ENVIRONMENT

Topic 1. Nature of international marketing
Topic 2. Agrarian marketing
Topic 3. The economic environment
Topic 4. Trade theories and economic development
Topic 5. Trade distortions and marketing barriers
Topic 6. Competetive analysis and strategy
Topic 7. Consumer behavior in the international context
Topic 8. Marketing research and information system
Topic 9. Foreign market entry strategies

Content module* 2. *FORMATION AND IMPLEMENTATION OF INTERNATIONAL AGRARIAN MARKETING STRATEGIES

Topic 10. Product strategies: Basic decisions and product planning
Topic 11. Product strategies: Branding and packaging decisions
Topic 12. Channels of distribution
Topic 13. Physical distribution and documentation
Topic 14. Promotion strategies: Personal selling, publicity, and sales promotion
Topic 15. Promotion strategies: Advertising
Topic 16. Pricing strategies: Basic decisions
Topic 17. Pricing strategies: Countertrade and terms of sale/payment
Topic 18. Sources of financing and international money markets
Topic 19. Currencies and foreign exchange

Topic 1. NATURE OF INTERNATIONAL MARKETING

Purpose. *This topic addresses who, what, why, and how of international marketing by giving an overview of the nature of international business. The discussion begins with an examination of how marketing in general is defined and how that definition works for international marketing. The topic* ***examines*** *the criteria that determine when a company has successfully transformed itself into a multinational firm. To dispel some popularly held misconceptions, there is an explicit treatment of the benefits of international trade*

The objectivese to learn this topic are:

· To provide an understanding of the factors which have led to the growth of internationalism and globalisation

· To produce a description of the major concepts and themes on which the subject of global marketing is based

· To describe what is involved in planning for global marketing.

When organisations develop into international marketing organisations, they usually evolve into this from a relatively small export base. Some firms never get any further than the exporting stage. Marketing overseas can, therefore, be anywhere on a continuum of "foreign" to "global". It is well to note at this stage that the words "international", "multinational" or "global" are now rather outdated descriptions. In fact "global" has replaced the other terms to all intents and purposes. "Foreign" marketing means marketing in an environment different from the home base, it's basic form being "exporting". Over time, this may evolve into an operating market rather than a foreign market. One such example is the Preferential Trade Area (PTA) in Eastern and Southern Africa where involved countries can trade inter-regionally under certain common modalities. Another example is the Cold Storage Company of Zimbabwe.

CASE 1.1 Cold Storage Company Of Zimbabwe

The Cold Storage Company (CSC) of Zimbabwe, evolved in 1995, out of the Cold Storage Commission. The latter, for many years, had been the parastatal (or nationalised company) with the mandate to market meat in Zimbabwe. However, the CSC lost its monopoly under the Zimbabwean Economic Reform Programme of 1990-95, which saw the introduction of many private abattoirs. During its monopoly years the CSC had built five modern abattoirs, a number of which were up to European Union rating. In addition, and as a driving force to the building of EU rated abattoirs, the CSC had obtained a 9000 tonnes beef quota in the EU. Most of the meat went out under the auspices of the Botswana Meat Commission. For many years, the quota had been a source of volume and revenue, a source which is still continuing. In this way, the CSC's exporting of beef to the EU is such that the EU can no longer be considered as " Foreign" but an "Operating" market.

In "global marketing" the modus operandi is very different. Organisations begin to develop and run operations in the targeted country or countries outside of the domestic one. In practice, organisations evolve and Table 1.1 outlines a typology of terms which describes the characteristics of companies at different stages in the process of evolving from domestic to global enterprises.

The four stages are as follows:

1. *Stage one:* domestic in focus, with all activity concentrated in the home market. Whilst many organisations can survive like this, for example raw milk marketing, solely domestically oriented organisations are probably doomed to long term failure.

2. Stage *two:* home focus, but with exports (ethnocentric). Probably believes only in home values, but creates an export division. Usually ripe for the taking by stage four organisations.

3. *Stage three:* stage two organisations which realise that they must adapt their marketing mixes to overseas operations. The focus switches to multinational (polycentric) and adaption becomes paramount.

4. *Stage four:* global organisations which create value by extending products and programmes and focus on serving emerging global markets (geocentric). This involves recognising that markets around the world consist of similarities and differences and that it is possible to develop a global strategy based on similarities to obtain scale economies, but also recognises and responds to cost effective differences. Its strategies are a combination of extension, adaptation and creation. It is unpredictable in behaviour and always alert to opportunities.

There is no time limit on the evolution process. In some industries, like horticulture, the process can be very quick.

Table 1.1 Stages of domestic to global evolution

Management emphasis	Stage one Domestic	Stage two International	Stage three Multinational	Stage four Global
Focus	Domestic	Ethnocentric	Polycentric	Geocentric
Marketing strategy	Domestic	Extension	Adaption	Extension
Structure	Domestic	International	Worldwide area	Adaption creation matrix/mixed
Management style	Domestic	Centralised top down	Decentralised bottom up	Integrated
Manufacturing stance	Mainly domestic	Mainly domestic	Host country	Lowest cost worldwide
Investment policy	Domestic	Domestic used worldwide	Mainly in each host country	Cross subsidization
Performance evaluation	Domestic market share	Against home country market share	Each host country market share	Worldwide

Understanding of marketing process

International marketing should not be considered a subset or special case of domestic marketing. When an executive is required to observe marketing in other cultures, the benefit derived is not so much the understanding of a foreign culture. Instead, the real benefit is that the executive actually develops a better understanding of marketing in one’s own culture. For example, Coca-Cola Co. has applied the lessons learned in Japan to the US and European markets. The study of international marketing can thus prove to be valuable in providing insights for the understanding of behavioral patterns often taken for granted at home. Ultimately, marketing as a iscipline of study is more effectively studied.

QUESTIONS

1. What are the strengths and limitations of the international marketing and differences with domestic, global marketing?
2. Distinguish among: (a) domestic marketing, (b) foreign marketing, (c) comparative marketing, (d) international marketing, (e) multinational marketing, (f) global marketing, and (g) world marketing.

3. Are domestic marketing and international marketing different only in scope but not in nature?
4. Explain the following criteria used to identify MNCs: (a) size, (b) structure, (c) performance, and (d) behavior.
5. Distinguish among: (a) ethnocentricity, (b) polycentricity, and (c) geocentricity.
6. What are the benefits of international marketing?

DISCUSSION ASSIGNMENTS AND MINICASES

1. Before becoming IBM's chairman and chief executive officer, Louis V. Gerstner, Jr. was a vice-chairman of American Express. While at American Express, he stated: "The split between international and domestic is very artificial – and at times dangerous." Do you agree with the statement? Offer your rationale.

2. Do you feel that marketing is relevant to and should be used locally as well as internationally by: (a) international agencies (e.g., the United Nations); (b) national, state, and/or city governments; (c) socialist/communist countries; (d) LDCs; and (e) priests, monks, churches, and/or evangelists?

3. Some of the best-known business schools in the USA want to emphasize discipline-based courses and eliminate international courses, based on the rationale that marketing and management principles are applicable everywhere. Is there a need to study international marketing? Discuss the pros and cons of the discipline-based approach as compared to the international approach.

4. Do MNCs provide social and economic benefits? Should they be outlawed?

INFORMATION LINKS

1. *Best countries for business*
https://www.forbes.com/best-countries-for-business/list/
2. *Top 20 export countries worldwide*
https://www.statista.com/statistics/264623/leading-export-countries-worldwide/
3. *World Trade Statistical Review 2019*
https://www.wto.org
4. *International trade in goods statistics*
https://ec.europa.eu/eurostat/statistics-explained/index.php/ASEAN-EU_-_international_trade_in_goods_statistics
5. *International trade statistics 2001-2020*
http://www.intracen.org/itc/market-info-tools/trade-statistics/
6. *Trade and globalization*
https://ourworldindata.org/trade-and-globalization
7. *Global marketing*
http://www.fao.org/3/W5973E/w5973e02.htm#chapter%201:%20introduction%20to%20global%20marketing

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2. Sak Onkvisit and John J. Shaw International Marketing Analysis and strategy Fourth edition – 2010 – 577p.

3. Fiona Smith Agriculture and the WTO Towards a New Theory of International Agricultural Trade Regulation– 2009 – 165p.

4. Food Outlook June 2016: Global Market Analysis [Electronic resource]: biannual publication / editor C. Caple; FAO, Trade and Market Division. – Access mode: http://www.fao.org/giews/english/fo/

5. Journal of International Marketing [Electronic resource]: relevant articles on international marketing, bridging the gap between theory and practice. – Access mode:

http://www.marketingpower.com/aboutama/pages/ama%20publications/ama%20journals/journal%20of%20international%20marketing/journalofinternationalmarketing.aspx

International Trade Statistics [Electronic resource]: report / WTO Publications: World Trade Organization. – 239 [16] c. – Access

TEST QUESTIONS

1. What is marketing?
   a) Executing the process of product, prize, promotion, & place.
   b) Executing the process of product, price, promotion, & place.
   c) Executing the process of planning, price, people, & place.
   d) Executing the process of product, price, promotion, & time.
2. Conducting activities to capture the attention about a good or service is called:
   a) Promotion
   b) Product
   c) Place
   d) Price
3. What does applying the customer-orientation element of marketing enable the business to do?
   a) Offer products that consumers want to buy
   b) Coordinate its marketing activities
   c) Persuade customers to buy its products
   d) Provide more products than consumers need
4. Marketing activities take place in more than one country
   a) national marketing
   b) domestic marketing
   c) international marketing
   d) local marketing
5. Domestic marketing is concerned with
   a) marketing practices within marketer's home country
   b) comparative marketing
   c) marketing practices outside the home market
   d) alternative markets
6. International dimensions of marketing
   a) Regular foreign marketing
   b) Global marketing
   c) Multidomestic or international marketing
   d) all listed answers
7. Research of types and size and rules of businesses used in International marketing plan
   a) Legal environment
   b) Business and technological environments
   c) Political environment
   d) Economic environment
8. Research of effects of type of government, level of stability in International marketing plan
   a) Legal environment
   b) Business and technological environments
   c) Political environment
   d) Economic environment
9. Research of social structure, institutions, role of consumption in International marketing plan
   a) Legal environment
   b) Business and technological environments

c) Political environment
d) Economic environment

10. Research of Balance of payment trends, Trade barrier in International marketing plan

a) Legal environment
b) Business and technological environments
c) Political environment
d) Economic environment

Topic 2. AGRARIAN MARKETING

Purpose. *This topic addresses* Agricultural marketing as the process or services involved in moving an agricultural product from the farm to the consumer. Numerous interconnected activities are involved in doing this, such as planning production, growing and harvesting, grading, packing, transport, storage, agro- and food processing, distribution, advertising and sale.

This topic is intended to help the student understand:

-The relevance of marketing to the agricultural and food sectors in developing countries

- The meaning of the marketing concept
- Why it is necessary to implement the marketing concept throughout food and agricultural marketing systems
- The functions of agrarian marketing,
- The modes of operation of some of the major types of agricultural and food marketing enterprises

Be able to use in practice Benchmarking tool

Table 2.1 Conflict of interest in agricultural/food marketing systems

Key Players	Interests
Farmers	Maximum price, unlimited quantities
Manufacturers	Low purchase price, high quality
Traders and retailers	Low purchase price, high quality
Consumers	Low purchase price, high quality

The farmer's interest is focused on getting the best return from his produce, which usually equates to maximum price for unlimited quantities. Manufacturers want least cost, best quality produce from the farmer so that he can sell it at competitive, but profitable, prices. Traders and retailers want high quality and reliable supplies from the manufacturer or farmer, at the most competitive prices. Consumers are interested in obtaining high quality products at low prices. Clearly, there are conflicting interests here.

CASE 2.1 Venezuela Is Overrun By Elephants!

It is said that when a senior member of his court seriously displeased him, the King of Siam would make that individual a gift of a white elephant. The white elephant is both rare and, in Siam, was considered sacred. Siam tradition did not permit white elephants to be worked and so the hapless owner could make no economic gain from ownership of this sacred animal. In fact, ownership of a white elephant usually led to financial ruin since the owner had to feed the sacred animal on a special diet and elephants tend to have rather a large appetite.

In the 1970s Venezuela invested US$20 million in 6 cassava processing plants with a view to dehydrating cassava, already grown locally, and using it as an ingredient in animal feed. The *intention was to substitute the local product for 21,600 tonnes of imported cereals (chiefly maize and sorghum) and create over 600 jobs. Moreover, cassava could bring marginal lands into production as this crop can flourish on soils that are too poor for sorghum or maize. All 6 cassava processing plants became 'white elephants'.*

Government was pursuing an incongruous pricing policy. Manufacturers were being supplied with government subsidised imported feed grains, in order to keep retail meat prices down grains, in order to keep retail meat prices down. Local farmers could not compete since imported sorghum was delivered to the feed mills at US$142 per tonne while domestic supplies were US$151 per tonne. The situation got worse when the government announced a 30 percent increase in farmer prices.

Venezuelan feed manufacturers could obtain cassava pellets from Thailand at a lower cost than they could from local mills. Moreover, feed manufacturers who could buy sorghum at US$150 per tonne were not inclined to purchase locally produced cassava pellets at US$250 per tonne.

From the outset it was evident that the investment in cassava processing would be marginal in economic terms. The feasibility study suggested that after the tenth year the rate of return would reach 11 percent and the internal rate of return would be only 7 percent. However, Venezuela had become an oil-rich country and capital was not in short supply. This perhaps explains why it was decided that the most technologically advanced equipment, from leading manufacturers, would be bought for the processing plants and that fuel oil would be used for drying rather than sun drying as in the most of the world.

Inadequate attention had been paid to the questions of raw material supply. In a 213 page report only 1 page touched on this issue. After all, Venezuelan farmers had a long history of growing cassava. However, there was no appreciable increase in the hectarage of cassava and farmers who could sell cassava for human consumption at US$75 per tonne refused the best offer that the cassava processing mills could make of US$45 per tonne.

Venezuela's cassava processing plants failed and became 'white elephants'. The planners of the project took little account of the marketing concept nor the nature of the marketing system. The needs of both the raw material suppliers, the farmers, and the feed manufacturers ought to have been carefully studied before the project was designed. There was no attempt to market the project to the farmers who continued to demand the same price for cassava destined for animal feed as they obtained for cassava processed for human consumption, even though the economics of the two sectors are quite different. No programme was instituted to promote the idea of planting additional areas of cassava. The economics of feed manufacturing were similarly ignored and so the cassava processors had difficulty in selling their pellets. Perhaps with a more appropriate level of technology the costs of producing cassava pellets could have been reduced to a point where they could compete with imported cassava pellets, sorghum and maize.

Note: Elephants are not indigenous to Venezuela. The 'white elephant' is however found in virtually all countries of the world.

In an ideal world there should be some form of strategic partnership between these key players. It is obvious that, in the long run, any one of the four groups would find it difficult to survive if the others do not. However, in real life, attitudes are not those of the ideal world or of the longer term. It is focused more on the shorter term and in preserving the interests of each group. Only by allowing each group to take care of its interests, can a balanced longer term relationship evolve. This must be borne in mind when considering what the food industry expects from agriculture. Moreover, those expectations will vary according to the level of sophistication of the markets the food industry itself is attempting to serve.

Marketing is also concerned with the financing of the enterprise itself. Here again some creative solutions can be developed. Where internal financing is insufficient for the purposes in view, an enterprise in a developing country can look to several alternatives including:

- development banks
- commercial banks
- shares issues

– credit co-operatives and/or credit unions

Where these sources of finance are considered inappropriate, or are simply not available to a particular enterprise, a strategic alliance in the form of a joint venture could be the answer. These are partnerships formed to exploit market opportunities more effectively and/or efficiently than either party can on its own. An enterprise, in a developing country, may engage in a joint venture with either an indigenous partner and/or with a foreign partner. The agreement between parties to a joint venture normally specifies their respective contributions of resources, share of management control, profit and risk

CASE 2.2 Massey-Ferguson Buys Its Own Tractors

Agricultural equipment manufacturers periodically undertake major revisions of their product lines. This is a very expensive process since the manufacturing plant required to produce agricultural tractors, combine harvesters, seed drills, straw balers and the like costs million of dollars. When the equipment manufacturer Massey Ferguson (MF) came to develop a completely new line of tractors, in the early 1980s, it sold its existing line of tractors to the state owned Polish tractor manufacturer Ursus in order to offset at least part of the cost of the new investment. The arrangement was rather novel for the industry at that time. Ursus was in such poor financial condition that it could not finance the purchase of the Massey Ferguson manufacturing plant and patents, so MF supplied the plant to Ursus and were to buy-back a proportion of the tractors which Ursus manufactured. They would continue to market these under the MF brand name whilst the remainder would be sold under the Polish manufacturer's name. Massey Ferguson planned to supply the older designs to markets in developing countries where these models continued to have a large market share whilst launching the new models in industrialised countries.

The agreement between Massey Ferguson and Ursus was modelled on a similar, and very successful, arrangement between the Italian automobile manufacturer Fiat and Poland's state owned car manufacturer. However, MF's deal never matched the performance of the Polski-Fiat. The failure of the MF-Ursus buy-back package had several causes, but foremost among them was the inability of Ursus to source components of the MF tractors which Massey Ferguson did not either manufacturer itself nor own the patents to. For example, the fuel injectors were manufactured by the British components supplier Lucas Industries. Poland simply did not have the foreign currency reserves, at that time, to import these and other parts.

Consequently, Ursus' tractor plant, on the outskirts of Warsaw, with the potential to produce 77,000 units per annum was able to manufacture around 350 units per year.

Whilst the MF-Ursus buy-back arrangement was not a success it should not be concluded that buy-back agreements are doomed to failure. The Polski-Fiat deal was, after all, a great success. The MF-Ursus failure was due to very specific circumstances. What should be concluded is that it is possible to devise innovative approaches to the financing of business enterprises.

Attempts to divert the purpose and resources of co-operatives to the support of particular political objectives adversely affects the co-operative movement. Factional dissension among the group distracts it from the achievement of its economic objectives. Members' meetings can become political forums devoted to the advocacy of opposing views. In these circumstances many members can become disenchanted and lose interest, making it easy for a minority group to take control and to attempt to run the co-operative to serve its own ends.

Co-operative principles require that membership should not be assumed to imply either political commitment or obligation. Co-operative systems organised and tightly controlled by governments as instruments of state economic policy are rarely conducive to the development of democratically-controlled, member-owned co-operatives. They are created to serve the objectives of politicians and planners; objectives which may or may not coincide with those of the members who have little effective control of the enterprise.

CASE 2.3 Compulsory Co-operatives - A Contradiction In Terms

Difficulties are encountered when the principle of the “voluntary co-operative”, is violated. Several countries have experimented with the compulsory co-operative. The most extensive such experiment was the ill-fated Ujamma programme in Tanzania. This required that the whole rural sector should effectively be administered and serviced through a system of village, district and regional administrations. Where it was considered necessary to rationalise the existing population distribution (11 million people were resettled), re-organise the infrastructure, or change patterns of cultivation to meet the objectives of the plan or the requirements of its administrators, this was done by decree. It was a massive effort of social engineering designed to radically and quickly reform and restructure an impoverished rural economy. It failed, largely because the bureaucracy was inadequate to the task it had taken upon itself and because the ability to exercise the necessary authority to secure acquiescence was not there.

The Ujamaa experiment was of particular interest to those in the co-operative movement because a well-established co-operative system was destroyed to make way for it, and co-operative assets subsumed into the new structure by decree. When it was eventually abandoned efforts immediately began to recreate another co-operative system based largely on that which had been destroyed.

Co-operative attitudes are not best cultivated by compulsion or by subjecting co-operative ‘members’ to the control and authority of bureaucrats

QUESTIONS

1. Who employs agricultural marketing?
2. Highlight the main conflicts of interest between the key players in agricultural and food marketing system.
3. What kinds of customers does agricultural marketing target?
4. How is an agricultural marketing campaign developed?
5. What career titles work with agricultural marketing strategies?
6. How can a marketing agency help you in this field?
7. What is the role of farmer, food marketing firm and consumer in the food production and marketing system?
8. What are some agricultural marketing activities?

DISCUSSION ASSIGNMENTS AND MINICASES

CASE 2.4. Group task.

(Group task for groups of students, preparing posters for performinf recommendations)

Going international?

Vlad is dairy farm manager and is responsible for a farm with 750 cows, mainly Ukrainian Black spotted cows. He has always sold the milk to a local milk processor but he is not very satisfied with the price he gets.

Vlad wonders if it would be attractive for the company to sell the milk to Danone, since some of his friends – also dairy managers – have told him that Danone and some other international operating milk companies pay higher milk purchasing prices. However, if he wants to do so he will have to meet high production standards and Vlad is not sure about the profitability of such a change.

On the other hand, continuing in the way he is doing now is not an option. Vlad wants to know more about foreign dairy breeds to increase milk production and other production methods to increase milk quality, including hygiene requirements. And Vlad is interested in benchmarking, to find out strengths and weaknesses of his farm. But which countries are most interesting for him to focus on? Germany, France or the Netherlands since these EU countries are nearby and relatively easy to access? Russia still the most important trade partner from Ukraine? Or countries like the US, Canada or New Zealand where dairy farms have more or less the same size as in Ukraine? Vlad decides that this choice is the first he has to make, in the interest of the future of his farm**.**

MARKETING TOOL

Benchmarking

Benchmarking is a strategy tool used to compare the performance of the business processes and products with the best performances of other companies inside and outside the industry.

Benchmarking is the search for industry best practices that lead to superior performance.

Comparing your own business to a rival is essential when competing. Without it, you would never know how successful your performance is in a market or whether you perform one or another task better than your competitor does. For example, 85% customer satisfaction might look great for you or even compared to your industry's average, but what if some other companies (not necessarily rivals) easily achieve 97% rate? In this situation, your 85% satisfaction rate doesn't look that brilliant. To better understand your situation and improve company's performance, the managers use benchmarking.

Some form of comparison in the companies was used, since 1800s, and mainly included product's quality and feature comparison. This type of comparison was scarcely used and didn't become a valuable management tool until late 1980s and 1990s, when Xerox introduced the process benchmarking technique. This type of comparison proved very beneficial and Xerox, AT&T and other companies began comparing the performance of their processes to the best standards in the industry. Managers use the tool to identify the best practices in other companies and apply those practices to their own processes in order to improve the company's performance. Improving company's performance is, without a doubt, the most important goal of benchmarking.

It's a very important tool in strategic management, because it often reveals how well your organization performs compared to rivals.

Other uses of the tool:

To reveal successful business processes. It is often unclear how successful companies achieve superior performance. By observing and scrutinizing such companies you can identify the processes, skills or competences that contribute to organization's success and then apply the same practices to your own company.

To facilitate knowledge sharing. The knowledge acquired about other businesses can be easily transferred to your own organization.

To gain competitive advantage. The company can gain a competitive advantage if it applies the best practices from other industries to its own industry. For example, a small family owned farm selling its own agricultural products online could apply the same social media strategies as internet blogs to attract attention and gain new customers. This would be a new way to gain customers and may result in at least temporary competitive advantage.

There are different types of benchmarking the managers can use:

Strategic benchmarking. Managers use this type of benchmarking to identify the best way to compete in the market. During the process, the companies identify the winning strategies (usually outside their own industry) that successful companies use and apply them to their own strategic process. It is also common to compare the strategic goals in order to spot new strategic choices.

Performance benchmarking. It is concerned with comparing your company's products and services. According to Bogan & English[8] the tool mainly focuses on product and service quality, features, price, speed, reliability, design and customer satisfaction, but it can measure anything that has the measurable metrics, including processes. Performance benchmarking determines how strong our products and services are compared to our competition.

Process benchmarking. It requires to look at other companies that engage in similar activities and to identify the best practices that can be applied to your own processes in order to improve them. Process benchmarking is a separate type of benchmarking, but it usually derives from performance benchmarking. This is because companies first identify the weak competing points of their products or services and then focus on the key processes to eliminate those weaknesses. For example, an organization using performance comparison identifies that their product 'X' is superior in features, manufacturing quality and design, but pricier than competitor's product 'Y'. Then the company determines, which processes add the most to the cost of the product and seek how to improve them by looking at similar, but less cost heavy processes in other companies.

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TEST QUESTIONS

1. Agricultural market players
   a) Logistic companies, retailers
   b) Accountants, layers, consultants
   c) Farmers, —consumers, —market middlemen, —government
   d) Fram owners
2. Agrarian markets classification on the basis of time span
   a) Short period, periodic, long period and secular markets
   b) Local or village market, regional market, national market
   c) Wholesale, retail markets
   d) Private, government
3. Agrarian markets classification on the basis of volume of transaction

a) Domestic, foreign markets
b) Wholesale market, retail market
c) Local, regional, national, international markets
d) Short period market, periodic market, long period market

4. Agrarian markets classification on the basis of degree of competition
   a) Short period, periodic, long period and secular markets
   b) Local or village market, regional market, national market
   c) Wholesale, retail markets
   d) Perfect, Monopoly,Oligopoly, Monopolistic Competitive Market
5. Agrarian markets classification on the basis of public intervention
   a) Short period, periodic, long period and secular markets
   b) Local or village market, regional market, national market
   c) Regulated market, Unregulated market
   d) Wholesale, retail markets
6. Ag markets classification on the basis of market functionaries and accrual of marketing margin
   a) Farmers market, Cooperative market, General market
   b) Wholesale, retail markets
   c) Local or village market, regional market, national market
   d) Regulated market, Unregulated market
7. Functions involved in agricultural marketing
   a) Exchange functions
   b) Physical functions
   c) Facilitation functions
   d) All listed answers
8. Physical functions of AgMarketing involves
   a) Standardization, Financing, Risk-bearing
   b) Storage, Transportation, Processing
   c) Buying (assembling), Selling
   d) All listed answers
9. Exchange functions of AgMarketing involves
   a) Standardization, Financing, Risk-bearing
   b) Storage, Transportation, Processing
   c) Buying (assembling), Selling
   d) All listed answers
10. Facilitation functions functions of AgMarketing involves
   a) Standardization, Financing, Risk-bearing
   b) Storage, Transportation, Processing
   c) Buying (assembling), Selling
   d) All listed answers

Topic 3. THE ECONOMIC ENVIRONMENT

Purpose. This topic explains the these factors are those so called "uncontrollables", unlike the "controllable" factors of price, promotion, place and product. They include market tastes, economic, socio cultural, legal, technological, competitive and political factors to name but a few. Failure to account for these factors can lead to dire consequences. As can be seen later, the failure by Tanzania to take account of the market changes and demand shift to polypopylenes from sisal, led to a demise in that country's sisal industry.

The objectives of this topic are:

· To describe and demonstrate the importance of the "economic" environment factor in planning and carrying out international marketing

· To show the importance of the "economic" factor in international marketing

· To describe and give an understanding of the major world regional economic blocs with particular emphasis on developing countries

In the past fifty years the global economy has changed rapidly. Particularly marked has been the development of world economic integration and standardised products. Coca Cola, Nissan and Marlboro cigarettes are examples of products which serve nearly every market. Generally there have been four major changes:

· capital movements rather than trade have become the driving force of the global economy

· production has become "uncoupled" from employment

· primary products have become "uncoupled" from the industrial economy and,

· the world economy is in control - individual nations are not, despite the large world economic share of the USA, China and Japan.

Taking each of these changes in turn, world trade is about some US$ 3 trillion, however, capital movements are much higher. The London Eurodollar market is worth about US$ 75 trillion per annum and foreign exchange transactions are US$ 35 trillion per annum.

Another change is the decoupling of employment from production. Employment is in decline whilst manufacturing output is growing or remaining static at 20-25% of GNP. Sectors such as agriculture, are achieving higher productivity through mechanisation but this is at the expense of employment.

Still another change is the decoupling of the primary product market from the industrial economy. Many commodity prices have collapsed, for example tea, yet industrial economies have been relatively affected. Unfortunately the prime producers have been dramatically affected.

Composition of world trade

Agriculture, minerals, fuels and manufactured goods figure most in world trade. However shifts are occurring (see table 3.1).

Table 3.1 Shift in commodity trade - % of world trade

Product	2014	2015	2016	2017	2018	2019	2020
Agriculture							
Minerals							
Fuel							
Manufactures							

Task: *exploring information and fiilling the table*

The international financial system

Global financing operations based on the gold standard gave rise to instability, so Bretton Woods, post World War II, saw the nascence of the International Monetary Fund (IMF) and World Bank.

The IMF deals with the International Monetary System. Involved countries joined IMF to establish a par value for other countries in terms of the US dollar and maintain it with +/- one percent of that value. The system fell down because large corporations were holding more funds than banks and so a "float" set in. IMF began to fade somewhat. However it still lends, on a short term basis, to countries with payment problems to help them continue trading.

The World Bank, or International Bank for Reconstruction and Development (IBRD) deals with international capital. It provides long term capital to aid economic development. Currently it has about US$ 22 billion annually for this operation. The role of the World Bank has often been criticised especially on its conditionalities for loans to Africa in funding structural adjustment and trade liberalisation programmes. However many developing countries require institutional funding to help them with trade and balance payment problems.

Individual economies: whilst the global factors listed above have aided the development of a world economy, marketers must consider carefully individual economies. A study of these helps answer the questions - how big is the market and what is it like? Currently there are over 200 individual countries in the world.

Size of market:

General indications of market size include population (growth rates and distribution) and income (distribution, per capita, GNP).

Global markets are at different stages of development which can be divided into five categories based on the criterion of gross national product per capita.

i) Preindustrial countries - incomes less than US$ 400 GNP per capita. Limited industrialisation, low literacy rates, high birth rates, heavy reliance on foreign aid, political instability. Parts of Sub-Saharan Africa. Little market potential.

ii) Less developed countries - per capita between US$ 401 and US$ 1,635. Early stages of industrialisation, growing domestic market, mature product markets, increasing competitive threat.

iii) Developing countries - per capita income between US$ 1,636 and US $ 5,500. Decrease in percentage of agricultural workers, industrialisation, rising wages, high literacy rates, lower wage rates than developed countries, formidable competitors.

iv) Industrialised countries - per capita income between US$ 5,501 and US$ 10,000. Moving towards post industrialisation, high standard of living.

v) Advanced countries - per capita income in excess of US$ 10,000. Post industrialisation, information processors, knowledge based, less machine based. Product opportunities are in new products, innovations and raw materials plus fresh foods.

DISCUSSION ASSIGNMENTS AND MINICASES

Task: Analysis of market potential of selected country. *Measures for assessing market potential are:*

a) Size of market - population, income (GNP/capita)
b) Nature of the economy - urban and rural
c) Nature of economic activity-preindustrial, less developed, developing, industrial, advanced.
d) Infrastructure
e) Inflation
f) Role of Government - laws, rules, regulations, stability
g) Economic environment - confidence, history, stability.

QUESTIONS

1. In what way has the global economy changed in the last 50 years? Why?
2. Discuss the various measures for assessing the size of market potential. What are the problems in the assessment? Give examples.

3. General indications of market size include
4. Global markets are at different stages of development which can be divided into five categories based on the criterion of gross national product per capita

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Topic 4. TRADE THEORIES AND ECONOMIC DEVELOPMENT

Purpose. This topic explains the rationale for international trade and examines the principles of absolute advantage and relative advantage. These principles describe what and how nations can make gains from each other. The validity of these principles is discussed, as well as concepts that are refinements of these principles.

The topic also includes a discussion of factor endowment and competitive advantage.

Finally, it concludes with a discussion of regional integration and its impact on international trade.

Student be able to use PESTLE/PEST analysis tool

CASE 4.1 THE UNITED STATES OF AMERICA VS. THE UNITED STATES OF EUROPE The European Union

The European Union (EU), once known as the European Common Market, is a prime example of a very high level of economic cooperation. Formed by the 1957 Treaty of Rome, the EU has grown from six to fifteen members. Sweden, Austria, and Finland joined the EU in 1995.The EU's institutions that function as the three traditional branches of democratic government are the European Parliament (as the legislative branch), the Court of Justice (as a judiciary), and the Council of Ministers of the European Communities (as the executive branch).The Council appoints members of the Commission of the European Communities, which initiates legislative proposals (regulations or directives) for the Council.

The passage in 1985 of the Single European Act (SEA), an amendment to the Treaties of Rome, was largely responsible for the development of the Single Internal Market.Taking effect in 1987, this legal instrument makes it possible for the Council of Ministers to adopt an Internal Market directive or regulation on the strength of a qualified majority (forty-four of sixty-seven votes). Council votes are assigned by a weighted average.The Council of Ministers thus no longer has to reach unanimous agreement for a directive to be passed. However, unanimity is still required for fiscal matters (e.g., taxation), decisions on the free movement of persons, and directives or regulations on the rights and interests of employed persons.

The EU member states have ceded substantial sovereignty to the EU. As an example, the EU's highest court ruled in 2001 that France was breaking an EU law by maintaining a ban on British beef, since the European Commission had already eased a worldwide embargo on British beef exports that was imposed over fears about mad cow disease (BSE).

Because an EMU envisages total fiscal and monetary integration, nations that agree to join the union must work out an economic arrangement in which trade between member countries directly benefits each of the countries'economic objectives. The features of an EMU require a common monetary policy formulated by a single institution; highly coordinated economic policies; and adequate, consistent constraints on members' public sector deficits and their financing.

It should be readily apparent that the formation of an EMU is a complex and exceedingly difficult task because this level of cooperation requires the harmonization of national economic policies - especially in the monetary and fiscal areas. A member country must give up the prospect of currency devaluation as a short-term instrument for solving economic problems. For an EMU to function effectively, member countries should have similar economic conditions. In the case of the EU, economic disparities are highly evident and will probably increase when the EU admits some Eastern European countries as new members.

Under the EU members'EMU agreements, the EU has created a central bank and adopted a single currency. According to the terms of the Maastricht Treaty, the EU nations wishing to join the monetary union must meet the following five economic criteria: annual inflation, public sector budget deficit, public sector debt, long-term interest rates, and exchange rate. In 1999, fixed conversion rates were adopted for the participating nations' currencies, and the European Central Bank (ECB) started to execute a common monetary policy. Following a transition period, the currencies were replaced by a new currency called the euro. At the beginning of 2002, twelve EU countries (not counting Denmark, Sweden, and the United Kingdom) introduced euro coins and notes.

The EU is unique in the sense that it is the first time advanced economies have agreed to cooperate economically on such a grand scale. Naturally, with the fall of the Berlin wall in 1989, countries emerging from communism coveted EU membership.To promote stability in the region, the EU is expanding.Ten new members have been admitted for accession in 2004. The ten new members are: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. Turkey, Bulgaria, and Romania have candidate status. While Bulgaria and Romania are on course for accession in 2007, Turkey was told to wait at least two more years before starting talks on joining.

NAFTA. The North American Free Trade Agreement (NAFTA) is a free trade agreement. Taking effect in January 1994, NAFTA comprises Canada, Mexico, and the USA. NAFTA, in terms of population, is larger than the European Union but slightly smaller than the European Economic Area. In addition, NAFTA's combined output is about 20 percent larger than that of the European Union.

NAFTA progressively eliminates almost all US-Mexico tariffs over a ten-year period and also phases out Mexico-Canada tariffs at the same time. Such barriers to trade as import licensing requirements and customs user fees are eliminated. NAFTA establishes the principle of national treatment to ensure that NAFTA countries will treat NAFTA-origin products in the same manner as similar domestic products. Service providers of the member nations will receive equal treatment.To protect foreign investors in the free trade area, NAFTA has established five principles: (1) nondiscriminatory treatment, (2) freedom from performance requirements, (3) free transference of funds related to an investment, (4) expropriation only in conformity with international law, and (5) the right to seek international arbitration for a violation of the Agreement's protections.

Canada's locus of economic activity has always been along the US border, which stretches for some four thousand miles. It is not too surprising that the natural axis of trade has always been from north to south rather than east to west. Canada is the largest single market for US exports as well as the largest manufactures market of the USA.

The USA is Mexico's most important trading partner, absorbing about two-thirds of total Mexican exports worldwide. On the other hand, Mexico is the third largest US trading partner, ranking after Canada and Japan. Approximately 70 percent of all of Mexico's imports come from the USA, and 15 cents of every additional dollar of Mexican GDP is spent on American goods and services. To modernize its infrastructure and plant facilities, Mexico is purchasing most of the durable goods and industrial materials from the USA. Not surprisingly, Mexico is the fastest growing major US export market. Mexico is, by far, the largest US trading partner in Latin America, accounting for about half of US exports to and imports from the region.

President Vicente Fox of Mexico has advocated a progressive move toward a North American common market that will allow free movement of labor among the three NAFTA members. Neither Canada nor the USA has shown much enthusiasm for the proposal. Instead, the USA is more interested in expanding the free trade area and thus maintaining the same level of economic cooperation.

As the EU expands, the USA itself is trying to persuade the other American countries to join the free trade area.The Free Trade Area of the Americas (FTAA), when completed, will be the world's largest free trade area stretching from the southern tip of Argentina northward to Alaska. In December 1994, at the first Summit of the Americas, the USA and thirty-four other democratically elected leaders in the Western Hemisphere took the first step by committing to establishing the FTAA by 2005. The idea of the FTAA is to allow import tariffs to fall to zero over a decade or more. Nontariff barriers will be gradually eliminated, and trade in services will be liberalized. When formed, the FTAA will be the largest free-trade area in the world.

Points to consider

1. Discuss the obstacles and opportunities presented by the EU market. How should Japanese and American firms adjust their marketing strategies to meet the challenges?
2. Discuss the benefits and difficulties involved as the EU absorbs several new members.
3. Assess the likelihood that the EU will be able to establish a political union.
4. Why is it that organized labor in the USA opposes NAFTA and further expansion when it never objected to the US-Canada Free Trade Agreement which preceded NAFTA?
5. Should the USA advance NAFTA to the next stage to become, say, a common market? Or instead of vertical advancement, should the USA push for horizontal advancement by creating the FTAA?

QUESTIONS

1. Is trade a zero-sum game or a positive-sum game?
2. Explain (a) the principle of absolute advantage and (b) the principle of relative advantage.
3. Should there be trade if (a) a country has an absolute advantage for all products over its trading partner, and (b) if the domestic exchange ratio of one country is identical to that of another country?
4. What is the theory of factor endowment?
5. Explain the Leontief Paradox.
6. Discuss the validity and limitations of trade theories.
7. Distinguish among (a) free trade area, (b) customs union, (c) common market, (d) economic and monetary union, and (e) political union.
8. Does economic cooperation improve or impede trade?
9. How does trade affect economic development?
10. How does trade affect development?
11. How international trade improve the economy of the country?
12. How does international trade affect the rate structure and character of economic growth?

DISCUSSION ASSIGNMENTS AND MINICASES

***1. Group task**: Ppt presentation of comparative advantage and comparative disadvantage of celected country (USA, China, Ukraine, Germany, Nigeria, France, UK …). 3 students in one group. Points to consider:*

- ✓ Compare the development strategy and trajectory of the economy
- ✓ Exchange Rate
- ✓ International Trade
- ✓ Current Account Balance
- ✓ Exports
- ✓ Imports
- ✓ External Debt
- ✓ Foreign Direct Investment Flows
- ✓ Export Trade Partners
- ✓ Export Goods
- ✓ Import Trade Partners

2. Why is it beneficial for the well-endowed, resource-rich to trade with other nations?
3. For a country with high labor costs, how can it improve its export competitiveness?
4. Explain how the advanced economies should cope with the shift in comparative advantage.
5. *Final task* – after in-class discussion group performance of the group presentation including all group memebers. Evaluation of work by cryterias: contenet, attractiveness, using references and marketing tools, presentation.

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MARKETING TOOL
PESTLE/PESTanalysis

PEST analysis is an analysis of the political, economic, social and technological factors in the external environment of an organization, which can affect its activities and performance.

PESTEL model involves the collection and portrayal of information about external factors which have, or may have, an impact on business.

PEST or PESTEL analysis is a simple and effective tool used in situation analysis to identify the key external (macro environment level) forces that might affect an organization. These forces can create both opportunities and threats for an organization. Therefore, the aim of doing PEST is to:

– find out the current external factors affecting an organization;
– identify the external factors that may change in the future;
– to exploit the changes (opportunities) or defend against them (threats) better than competitors would do.

The outcome of PEST is an understanding of the overall picture surrounding the company.

PEST analysis is also done to assess the potential of a new market. The general rule is that the more negative forces are affecting that market the harder it is to do business in it. The difficulties that will have to be dealt with significantly reduce profit potential and the firm can simply decide not to engage in any activity in that market.

PEST analysis is the most general version of all PEST variations created. It is a very dynamic tool as new components can be easily added to it in order to focus on one or another critical force affecting an organization. Although following variations are more detailed analysis than simple PEST, the additional components are just the extensions of the same PEST factors. *The analysis probably has more variations than any other strategy tool:*

STEP = PEST in more positive approach.
PESTEL = PEST + Environmental + Legal
PESTELI = PESTEL + Industry analysis
STEEP = PEST + Ethical
SLEPT = PEST + Legal
STEEPLE = PEST + Environmental + Legal + Ethical
STEEPLED = STEEPLE + Demographic
PESTLIED = PEST + Legal + International + Environmental + Demographic
LONGPEST = Local + National + Global factors + PEST

The process of carrying out PEST analysis should involve as many managers as possible to get the best results. It includes the following steps:

Step 1. Gathering information about political, economic, social and technological changes + any other factor(s).

Step 2. Identifying which of the PEST factors represent opportunities or threats.

NOTE: PEST covers all macro environment forces affecting an organization. Therefore, when doing PESTEL or STEEPLED analysis, legal, environmental, ethical and demographic factors may overlap with PEST factors.

Political factors: Government stability and likely changes; Bureaucracy; Corruption level; Tax policy (rates and incentives); Freedom of press; Regulation/de-regulation; Trade control; Import restrictions (quality and quantity); Tariffs; Competition regulation; Government involvement in trade unions and agreements; Environmental Law; Education Law; Anti-trust law; Discrimination law; Copyright, patents / Intellectual property law; Consumer protection and e-commerce; Employment law; Health and safety law; Data protection law; Laws regulating environment pollution

Economic factors: Growth rates; Inflation rate; Interest rates; Exchange rates; Unemployment trends; Labor costs; Stage of business cycle; Credit availability; Trade flows and patterns; Level of consumers' disposable income; Monetary policies; Fiscal policies; Price fluctuations; Stock market trends; Weather; Climate change

Socio-cultural factors: Health consciousness; Education level; Attitudes toward imported goods and services; Attitudes toward work, leisure, career and retirement; Attitudes toward product quality and customer service; Attitudes toward saving and investing; Emphasis on safety; Lifestyles; Buying habits; Religion and beliefs; Attitudes toward "green" or ecological products; Attitudes toward and support for renewable energy; Population growth rate; Immigration and emigration rates; Age distribution and life expectancy rates; Sex distribution; Average disposable income level; Social classes; Family size and structure; Minorities

Technological factors: Basic infrastructure; Legislation regarding technology; Technology level in your industry; Communication infrastructure; Access to newest technology; Internet infrastructure and penetration

Environmental (ecological) factors: Weather; Climate change; Laws regulating environment pollution; Air and water pollution; Recycling; Waste management; Attitudes toward "green" or ecological products; Endangered species; Attitudes toward and support for renewable energy

Legal factors: Anti-trust law; Discrimination law; Copyright, patents / Intellectual property law; Consumer protection and e-commerce; Employment law; Health and safety law; Data Protection

STEEPLED analysis template	
Political	Economic
Socio-cultural	Technological
Environmental (ecological)	Legal
+	
Ethical	Demographic
• Ethical advertising and sales practices • Accepted accounting, management and marketing standards • Attitude towards counterfeiting and breaking patents • Ethical recruiting practices and employment standards (not using children to produce goods)	• Population growth rate • Immigration and emigration rates • Age distribution and life expectancy rates • Sex distribution • Average disposable income level • Social classes • Family size and structure • Minorities

Gathering information is just a first important step in doing PEST analysis. Once it is done, the information has to be evaluated. There are many factors changing in the external environment but not all of them are affecting or might affect an organization. Therefore, it is essential to identify which PEST factors represent the opportunities or threats for an organization and list only those factors in PEST analysis. This allows focusing on the most important changes that might have an impact on the company.

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Topic 5. TRADE DISTORTIONS AND MARKETING BARRIERS

Purpose. This topic catalogs the types and impact of trade and marketing barriers. It examines trade restrictions and the rationale, if any, behind them. By understanding these barriers, marketers should be in a better position to cope with them. It would be impossible to list all marketing barriers because they are simply too numerous. Furthermore, governments are forever creating new import restrictions or adjusting the ones currently in use.

For purposes of study, marketing barriers may be divided into two basic categories: tariffs and nontariff barriers.

Student be able to use DESTEP analysis tool

CASE 5.1 GLOBAL WAR ON DRUGS OR TUNA?

Sujata Ramnarayan, San José State University

Senator Bob Graham of Florida proposed lowering tariffs on Ecuadorian tuna as part of an effort to revive the Andean Trade Preferences Act. The renewed act would expand and revive decade-old reductions in tariffs on cut flowers, textiles, packaged tuna, and other goods from Ecuador, Peru, Bolivia, Venezuela and Colombia. These reductions were intended to coax the Andean countries out of the drug business. Little did the Senator know that this bill, intended to combat drugs, would become a worldwide battle for and against tuna tariffs.

THE TUNA INDUSTRY AND THE CANNING PROCESS

The canning of tuna began in the USA in 1903 in Southern California. By the 1960s the operations had spread to the Atlantic coast, the Pacific Northwest, and the offshore territories of Puerto Rico and American Samoa due to low wages and their proximity to fishing areas. By the 1980s public concern for the safety of dolphins along with legislative activity intended to protect these friendly mammals led to shifts in sourcing. In addition, increasingly low-cost imports led to the closure of many of these plants. The Eastern Pacific Region now became a favored source of tuna production due to the fact that the tuna do not run along with dolphins in these waters unlike elsewhere.This led to the shrinkage of the industry in the continental USA, Puerto Rico, and Hawaii.

"Loining" Technology

Tuna is the most widely eaten fish in the USA. Most tuna canneries are located near fishing docks so the fish can be easily unloaded off the vessels.They are then subjected to a process of thawing, butchering, and precooking. After the first cooling process the fish are cleaned by removing the skin and separating the white meat for human consumption from the red meat for pet products. Other by-products include fishmeal and liquid fertilizer. The process of cleaning and separation is followed by packing tuna in water or oil with or without salt. In most canning operations, the cleaning, packing, and seaming equipment areas are located in the vicinity.

Loins are the light, meaty, edible part of the fish.The technology to use loins as the raw material in the canning process is fairly new. In addition, loins weigh less than half of a whole fish since they comprise the edible portion of the fish without all the waste.Their use as raw material in the canning process can result in considerable reduction in freight costs. The production of the loins which includes the butchering and cleaning steps is highly labor intensive, accounting for 60 to 80 percent of the cost of labor in the tuna-processing cannery. Thus, a cannery that contracts to use either fresh or frozen loins as the raw material for its canning operations stands to gain a significant amount of savings.

Tuna market players

The tuna industry is dominated by three major brands - StarKist, Bumble Bee, and Chicken of the Sea - all of which together account for 80 percent of the market in the USA. StarKist Seafood is the US leader with 44 percent of the market, more than the next two - Bumble Bee (23 percent) and Chicken of the Sea (17 percent) - combined.

StarKist and Bumble Bee both have sizable Tuna operations in Ecuador, the region's biggest tuna exporter. However, the two companies now find themselves on the opposite sides of the battle. Bumble Bee would like to see the tariffs continue. The company does all its labor intensive work of "loining" at its 2000-worker Ecuadorian plant. It then ships its cooked fillet to its automated plants in California and Puerto Rico, saving the canning until it enters the USA. This way, the company pays a low duty of 1.5 percent on its product.

StarKist has a different business model for its tuna operations in Ecuador and looks forward to the proposed reduction in tariffs. Its tuna-processing facility in Ecuador cleans, cooks, and packages the tuna for transport to the US in pouches. Depending on whether they are packed in water or oil, the tariffs on its tuna range from 15 to 35 percent.

ASEAN members joining the battle

Meanwhile, the ANDEAN Trade Preference Agreement under review has angered members of the Association of South East Asian Nations (ASEAN). ASEAN members face tariffs as high as 35 percent on their tuna exports to the USA. Ecuadorian tuna exports to the US have grown 600 percent in the past year, due mainly to lower transportation costs. Additional reduction in tariffs would give them an even greater advantage over their Asian counterparts.

While StarKist has spoken up in favor of the tariff reduction, Bumble Bee has teamed up with its Asian rival, Chicken of the Sea, a unit of Bangkok-based Thai Union Frozen PLC based in San Diego, to send a letter to American Samoa's representative in Congress.The two companies have warned Congress that this bill would put US business into foreign hands. In addition, Chicken of the Sea threatens to cut its workforce in Samoa by half.

Samoa sits on the world's richest tuna fishing grounds and the US tax code offers lucrative tax credits to US companies with operations in Samoa. More than 80 percent of the island's economy is driven by two huge tuna packing plants one of which is owned by StarKist, the island's largest employer. Samoan workers earn $3.30 an hour compared to Ecuadorian workers who earn 40 cents an hour. StarKist officials maintain that they have no intention of moving out of Samoa even if the Ecuadorian tuna tariffs are removed.

Points to consider

1. Discuss the different environmental factors having an impact on the tuna-processing industry.
2. How can international distribution strategy provide a competitive advantage? Which of the three market players has the best distribution strategy?
3. In what ways are international trade treaties having an impact on the tuna canning industry?
4. How would you have approached this issue as a member country of ASEAN?

QUESTIONS

1. Explain the rationale and discuss the weaknesses of each of these arguments for protection of local industries: (a) keeping money at home, (b) reducing unemployment, (c) equalizing cost and price, (d) enhancing national security, and (e) protecting infant industry.
2. Distinguish between these types of tariffs: (a) import and export tariffs, (b) protective and revenue tariffs, (c) surcharge and countervailing duty, and (d) specific and ad valorem duties.
3. Explain how these distribution/consumption taxes differ from one another: single-stage, value-added, cascade, and excise taxes.

DISCUSSION ASSIGNMENTS AND MINICASES

1. If the simple existence of government can distort trade inside and outside of its area, should governments be abolished in order to eliminate trade distortion?
2. Will tariffs play a more significant role than nontariff barriers during the 2000s in affecting world trade?
3. Discuss how you can overcome the financial control imposed by the host country.
4. Do you agree that the WTO has served a useful purpose and has achieved its goals?
5. Should the advanced economies continue the GSP system?
6. How should MNCs generally cope with trade barriers?
7. A value-added tax (VAT) is a multistage, noncumulative tax on consumption, and it is levied at each stage of the production and distribution system. At the retail level, a retailer sends VAT payments to the government only on the value it adds to a particular product (i.e., its markup). The balance of the VAT on that product is remitted to the government by all other registered firms involved in the production of any inputs used in making or distributing that product. Each party's responsibility is in proportion to its share in the total value added embodied in the final product. Because all the firms involved in the production and distribution will be fully reimbursed by means of successive VAT tax credits, consumers are the ones ultimately bearing the entire VAT liability.
8. Some US government officials and elected officials have advocated the adoption of the European VAT system for revenue and balance of trade reasons. What is their reasoning? Do you agree with their position? Will VAT enhance U.S. trade competitiveness? Will it discourage tax avoidance and evasion?
9. Presumably a statement of fact, foreign subsidies are supposed to be both unfair and harmful to the US economy. Any American politicians would be foolish to argue otherwise. Do you agree with the conventional wisdom that foreign subsidies are unfair? Are subsidies harmful to the USA? How should the USA deal with imported products which are subsidized?
10. As in many countries, the cigarette market in Thailand is a regulated and largely monopolistic one. A quasi-government agency was granted an exclusive right to manufacture and market cigarettes. The US Cigarette Export Association complained that Thailand's discriminatory acts and policies created barriers in the sale of foreign cigarettes. As a result, American firms lost at least $166 million in exports annually. The Association filed a petition under Section 301 of the US trade law, thus instigating the US Trade Representative's investigation. Subsequently, American trade negotiators put a great deal of pressure on the Thai government. Eventually, Thailand was forced to reluctantly open its cigarette market to imports in 1990. Do you agree with the U.S.

government's involvement in pressuring other countries to open their markets to American products in general and American tobacco products in particular?

MARKETING TOOL

DESTEP analysis

What is the DESTEP Analysis?

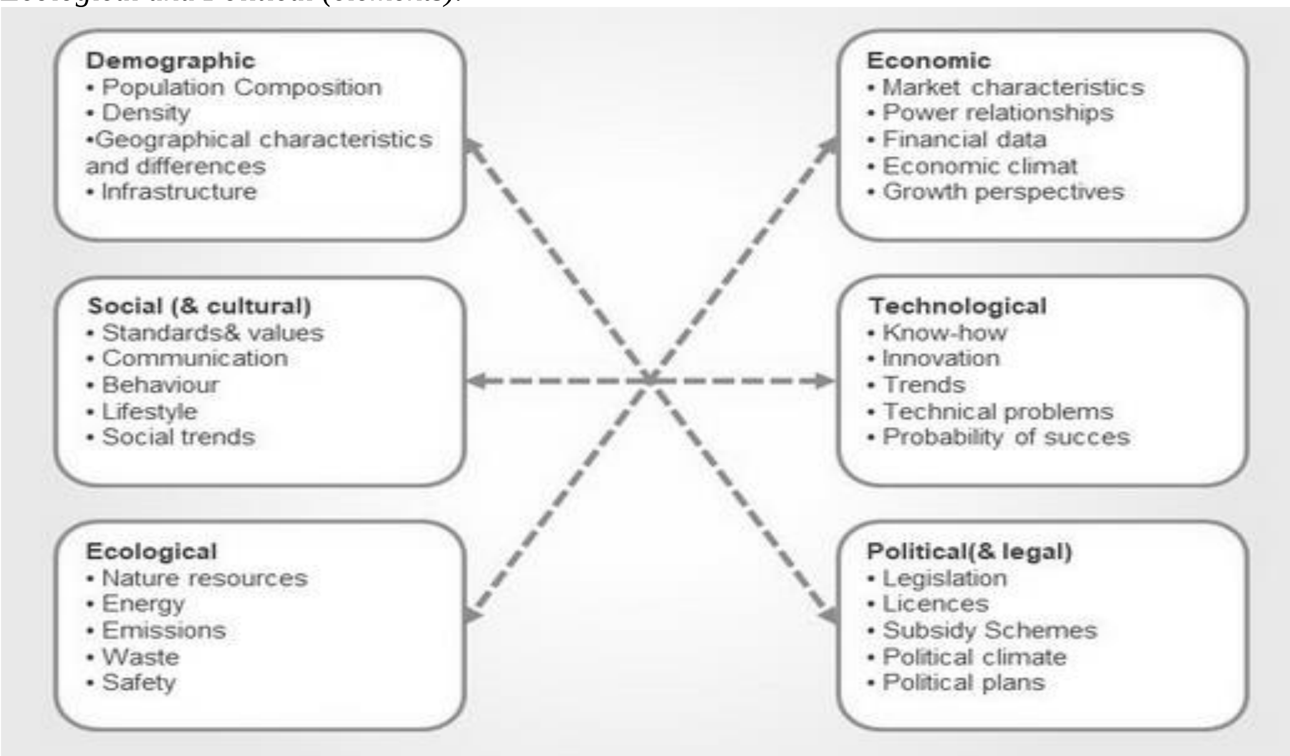
Organizations depend on their external environment.

This environment can be divided into the Meso- and the Macro environment.

The Meso environment is the sector or the market in which the organization is active. An organization is somewhat capable of influencing this Meso- environment.

In the Macro environment this the other way round, it influences the organization. Every organisation is faced with factors they can exert influence on and factors they cannot exert influence on at all.

The DESTEP Analysis provides more information about these Macro-economic factors. DESTEP is an acronym that stands for: Demographic, Economic, Social, Technological, Ecological and Political (elements).



***D**emographic aspects*

This factor addresses the composition of the population; greater understanding of this factor could be of crucial importance for an organization.

***E**conomic aspects*

These are all factors that have to do with economic growth, inflation, purchasing power, etc.

***S**ocial (cultural) aspects*

These are characteristics in the area of culture and way of life.

***T**echnological aspects*

This is about all developments and innovations an organization has to respond to in order to keep up with the times

***E**cological aspects*

This includes all factors in the area of the physical surroundings and the environment.

***P**olitical-legal aspects*

These are all political measures at a decision-making, provincial and municipal level.

Using a DESTEP Analysis a company may derive strategic benefits from this. With the right advance information about the different DESTEP Analysis factors, an organization can determine, for instance, whether they should or should not open a branch in a specific environment.

EXAMPLE: *Below is a DESTEP analysis example of a worldwide known coffee chain. The chosen country is the Netherlands*.

Demographic aspects: small country with high population density (16.3 million people), decreasing growth and increasing aging.

Economic aspects: rRich economy that is attractive for investors. There is economic growth (3.5% in 2006), including confidence among both consumers and producers. Expenditure per household is increasing.

Social (cultural) aspects: the Netherlands is the second country in the world with the most coffee drinkers. 70% of them drink that mainly at home.

*Technological aspects:*the Dutch are crazy about luxury coffee machines such as manual espresso machines.

Ecological aspects: Dutch people find coffee to be at home from other countries more important than drinking outside the door.

Political-legal aspects: the Netherlands has a fairly stable political and legal system. In addition, it also has good relations with other countries when it comes to import and export agreements.

Conclusion. For the worldwide known coffee chain, it is not interesting to open branches in the Netherlands. Despite the good import and export agreements and the rich economy, two-thirds of the Dutch prefer to drink coffee at home and enjoy it more than outside the door.

Group task: *Ppt presentation of DESTEP/PESTEL analysis of celected country (USA, China, Ukraine, Germany, Nigeria, France, UK …). 3 students in one group. Discussion of presentation structure in-class by groups and final completing at home. Forming students' groups is responcibility of teacher.*

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TEST QUESTIONS

1. The United States has cut off all trade with North Korea. This is an example of ...
   a) Embargo
   b) Quota
   c) Comparative Advantage
   d) Trade Deficit
2. Limits on the quantity or value of imported goods
   a) Protectionism
   b) Embargo
   c) Quota
   d) Tariffs
3. The United States imposes a tax on car parts imported from Japan. This is an example of what?
   a) Tariff
   b) Embargo
   c) Quota
   d) Sanctions
4. The giving up of one opportunity in order to pursue another
   Opportunity Costs
   a) Trade Deficit
   b) Protectionism
   c) Balance of Trade
5. The US gov't refuses to drop import tariffs on Japanese fish to protect American fishermen…
   a) This is an example of protectionism
   b) This is an example of a quota.
   c) This is an example of an embargo.
   d) This is an example of sanctions
6. Arguments for the protection of local industries
   a) keeping money at home, reducing unemployment
   b) increasing unemployment, enhancing national security
   c) increasing unemployment, balancing cost and price
   d) all listed answers
7. Trade barriers are needed ...
   a) to make prices of imported products less competitive
   b) to make local items more competitive
   c) all listed answers
8. Reasons for governmental intervention
   a) cultural, social
   b) economic, non-economic
   c) technological
   d) all listed answers
9. Instruments of trade control
   a) economic barriers, non-economic barriers
   b) financial barriers, non-financial barriers
   c) tariff barriers, non-tariff barriers
10. Non-tariff barriers include...
    a) Import tariffs, Export Tariffs
    b) Export Tariffs,Transit Tariffs

c) Subsidies, Embargoes
d) All listed answers

Topic 6. COMPETETIVE ANALYSIS AND STRATEGY

Purpose. The topic opens with a discussion on the nature of competition and then looks at a number of competitive analyses, including the seminal work by Michael Porter on industry analysis. Examples are given to reinforce the theory and the chapter finishes by looking at "outsourcing" as an important competitive strategy.

The objectives of this topic are:

· To describe and give an understanding of the different ways of analysing competition
· To show how to develop strategies based on competitive analysis and
· To give examples to ensure understanding of the techniques.

To be able use *Competitive Profile Matrix (CPM)*

As with domestic marketing, global marketers have to decide how they are to compete in their chosen market. According to Porter, the principal sources of competitive advantage are lower costs of production and a differentiated product offering. Lesser developed countries usually have the former, but may have to work hard to obtain the latter.

Should countries not be able to obtain a cost advantage, one possible option is to "outsource" production. This is a very common phenomenon of developed countries. However, it does take careful coordination and setting up if it is to be successful.

There are other strategies available to marketers other than low cost, these include market leadership, market challenger or market flanking. All these strategies require information on competitors as well as on "environmental" conditions.

As in industrial products, many factors go into making up the comparative or competitive advantage of a supplier. Similarly in food systems, many technological, market or natural resource endowment factors go towards making up competitive advantage. Many of these factors have actually been discussed, and these are summarised in table 6.1. These factors are primarily related to the size and patterns of food demand (shaped by incomes, tastes, technological developments etc.), microeconomics and sector policies (rate of inflation, investment policies, natural resources and human capital endowments (weather, soils, labour), physical and social infrastructure (roads, ports, telephones, power system) and micro-marketing relationship (quality/price relationships, management).

Table 6.1 Factors affecting international competitiveness for products/commodities

Factor	Vector
Market research	Income, tastes, resources and strengths of competing, suppliers, work patterns, population clusters, price, elasticities
Macroeconomics and sector policies	Terms of access and trade, price policies, fiscal and monetary policies, tariff and non tariff barriers
Natural resources and human capital	Geological resources, labour, climate, experience
Physical, technical, and social infrastructure	Transport, credit, market information, extension, communications, marketing extension, post harvest facilities
Micro marketing relationships	Quality control, efficiencies of management- buying, selling, handling, production, marketing, promotion, credit coordination, market research, risk analysis, relationship building.

Conversely these factors can also be "standardised" by Government or other market intermediaries and players to make the "threat" of new entrants even more real. These include standard technological measures like containerisation, packaging, waxcoating, use of accredited pesticides, mechanical handling; standard laws, rules and regulations -phytosanitary requirements, size, standards, grades and rules defining property rights; permissable forms of cooperation and competition; unusual brand marks or reputations; spot or contact trading; standard channels of distribution and so on. All these can help facilitate the entry of a newcomer and make the incumbent be particularly on guard and responsive. Table 6.2 give an example of a number of sources of competitive advantage for selected worldwide products.

Table 6.2 Sources of competitive advantage for selected commodity systems

Commodity	Low cost advantage	Product differentiation	Off season	Shift in source/strategy of competitive advantage
Kenya vegetables	Production	Broad range	Historically, not low	
Thailand tuna	Processing			
Taiwan food processing		Tailor made, high quality		Low cost to differentiated supplier
Israel fresh and processed citrus		Broad range, brand name, tailor made	Important	Commodity supplier to niche and technology supported product
Brazil frozen concentrated orange juice	Production	Bulk transport, tank, farm distribution		

DISCUSSION ASSIGNMENTS AND MINICASES

One of the remarkable success stories, against nearly all the odds, has been that of Argentina beef. It is an example of how, through low cost of production and product differentiation it has been able to maintain its international competitiveness.

CASE 6.1 Argentina Beef

Beef has been a tradition in Argentina for two centuries. It had always exported salted meet and later chilled beef, but with the establishment of "barriers" internationally the Commonwealth preference System, and other environmental factors like World War II, Argentina's international beef market contracted and so it standardised the domestic market. Argentina's beef consumption per capita is almost four times that of Western Europe (70-80 kgs compared to 15-25 kgs)

Despite its domestic orientation recently. Argentina is stilt the world's third largest beef producer and fourth in exporting terms behind Australia, Germany and the US. its traditional export markets for lower value products (boned and manufactured -beef) has been lost to subsidised EU supplies and because of other developed country protection measures.

However it has maintained or increased its export of high value products (boneless cute, canned beef, frozen beef) which now account for over 80% of export value. Its export value is now near the $800 million mark although only 10% of its total agricultural exports.

The Argentina beef industry faced all the "macro forces described by Porter internally and externally, and the threat of new entrants, but survived. This success was not necessarily built on favourable trading conditions but its ability to maintain international competitiveness through rampant inflation, currency overevaluation, heavy taxation, potential uncertainty and increased competition from substitute products internationally and from the Argentine cereals subsector which was clamouring for more resources,* *Its success was sustained by*

a) low cost production of quality beef (climate and extensive grasslands);

b) well developed, flexible and transparent livestock marketing system;

c*) Innovations in beef distribution domestically (butcher chain stores, vacuum packing);*

d) development of new: international market outlets. (Mid East); and,

e) debt rescheduling by banks for livestock and trading enterprises.

With recent measures to make the industry viable again, including capacity rationalisation, Argentina beef is now back in profit and. is exporting a little more now.

Many more examples exist of less developed countries taking advantage of the low cost of production and product differentiation to make an international success. But this is not limited to LDC's alone. Israel found itself unable to compete internationally with its citrus products, but found a new way to remain competitive internationally.

CASE 6.2 Israel Fresh Citrus Fruit

By the early 1950's, fuelled by mass immigration and large capital investments, the citrus subsector grew rapidly. Hectarage rose from 14 000 to over 40 000 hectares. With the well respected "Jaffa" label and the Citrus Marketing Board as the Only exporter (in Porter's term's giving huge, "supplier power") Israel oranges and grapefruit dominated many markets. However, by the late 1970's stiff competition from Spain, Morocco and Cyprus and changing consumer tastes led to a levelling off of demand, and the once powerful, Citrus Marketing Board found it had to shift its orientation from powerful, bargaining seller to a marketer" naturing new demand patterns. Whilst it succeeded in some of its promotion and utilisation campaigns, it increasingly found Itself with excess supply and a product which was less in demand. Consumer tastes had shifted to "easy peeling" oranges and tangerines and sweeter red grapefruit, away from Israeli Shamuti (Jaffa) orange and white grapefruit. The 1980's saw a major decline in international competitiveness and profitability with more than 20% of its planted citrus area uprooted, pack houses mothballed and volume levels falling to 1930's levels. The once powerful Citrus Marketing Board's monopoly was rescinded in 1991. Several factors led to Israel's decline. These included:

a) rapid cost inflation in the mid 1980's;

b) the strength of the USD vis a vis European currencies. The CMB's unit of accounting was USD;

c) a significant rise in international shipping costs in the early 1980's;

d) financial crisis within Israel's agricultural settlements;

e) improper export product mix;

f) conflict of interest in the subsector giving weakened incentives for product innovations and quality;

g) inability of the Citrus Marketing Board (CMB) to reposition itself to maintain competitiveness; and,

h) Quality and supply of competitors, especially in demanded products for example Spain.

The Israeli citrus industry experienced all the problems envisaged by Porter In maintaining industry competitiveness. Bargaining power by the CMD shifted from supplier to the buyer. Competitors had a better product and lower costs and a product that was now demanded. These directly substituted for the Israeli product.

However, Israel responded. In 1990 a few cooperatives and processors began processing fruit, despite the unsuitably of the product in many cases, and were able to absorb one million tons of fresh fruit product. Export of processed citrus products (concentrates, bases, essential oils etc) first exceeded its value of fresh fruit in 1984 and are now double the export of fresh fruits. Technological advances and the ability to tailor make to niches has ensured international competitiveness. However, the greatest potential, looks like in the supply of root stock to other producers and processors, although Florida and Brazil are doing the same.

QUESTIONS

1. What is the difference between "comparative advantage" and "competitive advantage"?
2. What are the sources of "competitive advantage" in a food marketing system?
3. Describe, with examples, a market leader, market challenger, market follower, market flanker and copy - adapt strategy.

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MARKETING TOOL

Competitive Profile Matrix (CPM) is a tool that compares the firm and its rivals and reveals their relative strengths and weaknesses.

In order to better understand the external environment and the competition in a particular industry, firms often use CPM. The matrix identifies a firm's key competitors and compares them using industry's critical success factors. The analysis also reveals company's relative strengths and weaknesses against its competitors, so a company would know, which areas it should improve and, which areas to protect. An example of a matrix is demonstrated below.

CPM Table

		Company A		Company B		Company C	
Critical Success Factor	Weight	Rating	Score	Rating	Score	Rating	Score
Brand reputation	0.13	2	0.26	3	0.39	1	0.13
Level of product integration	0.08	4	0.32	3	0.24	1	0.08
Range of products	0.05	3	0.15	1	0.05	2	0.10
Successful new introductions	0.04	3	0.12	3	0.12	3	0.12
Market Share	0.14	2	0.28	4	0.56	4	0.56
Sales per employee	0.08	1	0.08	2	0.16	3	0.24
Low cost structure	0.05	1	0.05	3	0.15	4	0.20
Variety of distribution channels	0.07	4	0.28	2	0.14	2	0.14
Customer retention	0.02	2	0.04	4	0.08	1	0.02
Superior IT capabilities	0.11	3	0.33	4	0.44	4	0.44
Strong online presence	0.15	3	0.45	3	0.45	4	0.60
Successful promotions	0.08	1	0.08	2	0.16	1	0.08
Total	1.00	-	2.44	-	2.94	-	2.71

Step 1. Identify the critical success factors

To make it easier, use our list of CSF and include as many factors as possible. In addition, following questions should be helpful identifying industry's CSF:

Why consumers prefer Company A over Company B or vice versa?

What resources, capabilities and competences firms possess?

What sustainable competitive advantages companies have in the industry?

Why some companies succeed and others fail in the industry?

Step 2. Assign the weights and ratings

The best way to identify what weights should be assigned to each factor is to compare the best and worst performing companies in the industry. Well performing companies will usually undertake activities that are significant for success in the industry. They will put most of their resources and energy into those activities as compared to low performing organizations. Weights can also be determined in discussion with other top-level managers.

Ratings should be assigned using benchmarking or during team discussions.

Step 3. Compare the scores and take action

You should compare the scores on each factor to identify where company's relative strengths and weaknesses are. In our first example, Company A had relative strength in 'level of product integration', 'product range' and 'variety of distribution channels'. Therefore, Company A should protect these areas while trying to improve its weaknesses in 'sales per employee' and 'market share'.

The company should also improve its strategy to become more successful in the industry.

CPM Example

		Android OS		iOS		Windows Phone	
Critical Success Factor	Weight	Rating	Score	Rating	Score	Rating	Score
Market share	0.13	4	0.52	2	0.26	2	0.26
Number of apps in store	0.10	4	0.40	4	0.40	2	0.20
Frequency of updates	0.06	3	0.18	4	0.24	2	0.12
Design	0.07	3	0.21	3	0.21	3	0.21
Product brand reputation	0.05	3	0.15	3	0.15	2	0.10
Distribution channels	0.11	4	0.44	2	0.22	3	0.33
Usability	0.11	3	0.33	3	0.33	3	0.33
Customization features	0.04	4	0.16	2	0.08	2	0.08
Marketing capabilities	0.04	2	0.08	4	0.16	2	0.08
Company brand reputation	0.10	4	0.40	4	0.40	3	0.30
Openness	0.02	4	0.08	2	0.04	2	0.04
Cloud integration	0.12	4	0.48	2	0.24	2	0.24
Rate of OS crashes	0.08	1	0.08	4	0.32	3	0.24
Total	1.00	-	3.51	-	3.05	-	2.53

The CPM analysis reveals that Android is the strongest player in the industry with relative strengths in market share, distribution channels, customization features, openness and cloud integration. On the other hand, iOS prevails in frequency updates, marketing capabilities and the rate of OS crashes. Windows Phone is the weakest of them all and doesn't have any relative strengths against its rivals. The companies should create their strategies according to their strengths and weakness and improve their ratings in the most significant industry's areas.

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Topic 7. CONSUMER BEHAVIOR IN THE INTERNATIONAL CONTEXT

Purpose. The topic examines the psychological and social dimensions, and these include motivation, learning, personality, psychographics, perception, attitude, social class, group, family, opinion leadership, and the diffusion process of innovations.

This topic seeks to assist the student in:

- Developing an understanding of the internal and external influences which shape the behaviour of both consumer and organisational buyers
- Identifying the discrete stages of the buying process undertaken by consumers and organisational buyers
- Appreciating how an understanding of buyer behaviour can be used in market segmentation and target marketing and
- Differentiating between types of organisational markets

Ability to use SWOT analysis

QUESTIONS

1. Distinguish among these three disciplines in terms of the unit of analysis: psychology, sociology, and anthropology.
2. Are rational motives more effective than their emotional counterparts in motivating consumers to make a purchase?
3. Are consumers' perceptions of products affected by the information concerning the products' countries of origin?
4. Explain how attitudes toward (a) marketing and (b) women may vary across countries.
5. Do social classes exist in the USA, the so-called land of equality?
6. Outline the stages of customer decision processes.
7. Explain the term ‘Endogenous factors’ and give 3 examples of such factors.
8. Are needs and motives one and the same thing?
9. What is cognitive inconsistency?
10. List the four fundamental characteristics of attitudes.

DISCUSSION ASSIGNMENTS AND MINICASES

1. Do you feel that consumer differences can be adequately explained by the all-encompassing concept of culture? Is it a waste of time to employ other psychological and social concepts to understand consumer behavior?
2. Are the same buying motives effective worldwide?
3. Because personality is related to an individual person, is it possible for citizens of a country to have unique personality traits? Does a nation have its own national character?
4. Compared to Americans, are Asians and Africans: (1) more group oriented, (b) more family oriented, and (c) more concerned with social status? How might such orientations affect the way you market your product to Asian and African consumers?
5. Do you think it is worthwhile to appeal to opinion leaders and innovators in foreign markets?

An individual need not belong to a given group in order for that group to exert an influence upon his/her behaviour. Shibutani4 has identified three distinct reference groups:

- a group to which an individual belongs (also known as a peer group)
- a group to which an individual aspires, and
- a group whose perspective has been adopted by the individual

A small scale miller will identify with other millers whose operations are similar in size and technology and will feel that he/she belongs to this group. He/she may have ambitions to become a larger scale operation employing more sophisticated milling technology and so aspires to membership of a group recognised as industrial millers. At the same time, the small scale miller may adopt the views and opinions of a grain trader's association since he/she believes that when this group voices an opinion about trends or proposed changes to the grain trade their arguments are well articulated, forceful and normally in the best interests of small scale millers as well as grain traders. The common factor between these three groups is that they each provide a frame of reference for the individual. As the example of the small scale miller illustrates, an individual can have several reference groups.

CASE 7.1 The Collective Wisdom Of The Pathan

The Agricultural Light Engineering Programme (ALEP) was a joint initiative between the Swiss aid agency, Intercooperation, and the Pakistan government. Situated in North West Frontier Province (NWFP), ALEP existed to facilitate the development of appropriate agricultural machinery.

NWFP is mainly populated by Pathans. Pathan society is characterised by a high degree of social conformity and a pronounced hierarchical structure. ALEP quickly discovered that no farmer would adopt a new tool or machine without the explicit approval of both his peer group and the local patriarch (i.e. the village headman or biggest landowner). Indeed, ALEP found that there was little point in undertaking market research based on personal interviews since farmers would invariably want to consult with family, friends and neighbours before voicing an opinion. Instead, ALEP resorted to conducting group interviews in the village hudjra (men's meeting place).

Reference groups can have a significant influence on patterns of product use and consumption. In China, the practice of purchasing fish whilst it is still alive is so deeply ingrained that the marketing of frozen fish has barely been established. Certain norms and values run so deep in a reference group that it is usually counter-productive to challenge them. In other instances, reference groups have only the weakest influence on buying behaviour. The key difference appears to be the extent to which a product is used or consumed publicly. That is, if the product or brand is evident to those within the reference group then that group's influence is likely to stronger with regard to purchasing behaviour.

Once the need is recognised then the individual concerned will form a motive. A motive may be defined as an impulse to act in such a way as to bring about the meeting of a specific need.

CASE 7.2 How Marmite Spread Around The World

The renowned French bacteriologist, Louise Pasteur, identified yeast extract as a rich source of vitamin B in the mid-19th century. Since yeast extract was a waste product of the beer brewing industry, it had great potential as a cheap and nutritious supplement to the human diet.

Although discovered in France, Marmite (the French word for "stewpot") was not widely accepted either in France or in other parts of mainland Europe. In fact, it was British entrepreneurs who developed the market for Marmite. At home the product's nutritional value was heavily promoted with schools and hospital constituting the primary target markets. The manufacturers of Marmite also took advantage of Britain's colonial status to open up export marketing opportunities. Large shipments of Marmite went to British colonies in Africa, the Far East and other areas where it served to combat malnutrition.

The world has changed since Marmite was first introduced in 1902 and yet the product has remained popular. Marmite smells meaty and has a strong flavour but in fact it is entirely vegetable in content and is free of artificial flavourings. Whilst the nutritional value of Marmite is still promoted in developing countries, this is now a secondary selling proposition in developed countries. 'Taste', 'natural flavour' and 'additives free' have become the principal product attributes promoted to consumers in these countries' selling proposition. Marmite's target markets have also changed over the years. Institutional and other organisational markets are no longer the focus of the marketing strategy. It is consumer households at which promotional campaigns are directed, and with some success. Each year, around 18 million jars of Marmite are sold around the world.

Marmite is a striking example of the power of creative marketing to take a by-product, that was once just thrown away, and turn it into a widely accepted product that has consistently mirrored the needs, motives, attitudes and self image of its consumers.

In practice, to marketing management, perhaps the most rewarding aspect of personality studies to date has been the concept of self-image. An individual's self-image is how he/she sees him/herself. Self-image is a fusion of how a person would ideally like to be, the way a person believes others see him/her and how a person actually is. The resulting self-image can be wholly inaccurate. People tend to exaggerate the extent to which they are in proximity to the ideal self and underestimate the extent to which others are aware of weaknesses in their character, and their real self can be quite different from either of the other two.

CASE 7.3 Consumers Take An Instant Dislike To Nescafè

Instant coffee was first introduced in 1949. Initially this new product seemed as though it would be widely accepted. Tests were conducted in which samples of potential users were given unmarked cups of instant coffee. A substantial proportion of the sampled respondents could not tell the difference between the two coffees. However, when Nestlè launched its Nescafè brand it was disappointed by sales. Follow-up research posed the question, "Why don't you use instant coffee?" The response was, "I don't like the taste."

Given the pre-launch marketing research results Nestlè decided to pursue the matter and employed a psychologist to pose the question in less direct ways in an attempt to access underlying motives. Two samples, each comprising of 100 housewives, were given a shopping list. The two shopping lists were identical except that one contained Nescafè instant coffee and the other Maxwell House coffee (drip grind). Respondents in each of the samples were asked what they could infer about the characteristics and personality of the woman who had written the shopping list which they had been given. The two groups of respondents described quite different women.

The woman who bought instant coffee was described as lazy, poorly organised, careless with money and an inadequate wife and mother. In describing the hypothetical buyer of instant coffee in this way, respondents were projecting their own feelings towards instant coffee. That is, the rejection of instant coffee had little to do with poor taste characteristics. Rather, respondents were concerned about how they would be perceived by others if they used a convenience product like instant coffee. They were clearly convinced that they would be seen to have the same characteristics as the woman whom they had described.

This classic study of buyer behaviour illustrates the impact of customer perceptions and motivations on buying decisions. It also serves to underline the fact that the reasons buyers give for their behaviour cannot always be taken at face value

MARKETING TOOL

SWOT analysis

SWOT is an acronym for:

S*trengths*: positive characteristics that give an advantage in it's being;
W*eaknesses*: critical characteristics that give an disadvantage in it's being;
O*pportunities*: a set of circumstances that makes it possible to do something in advantage;
T*hreats:* a set of circumstances that could have an negative influence on the desired goal.

Strengths

These are the strengths of a project or organization that can contribute to achieving the intended objectives. To determine what they are, the following questions could be asked:

- What advantages do you offer your customers?
- What do you do better than your competitors?
- Why do customers choose you over your competitors?
- What are our Unique Selling Points (USPs)?
- Which factors have a significant influence on the buying behaviour of your customers?
- What business processes are successful?
- What assets do you have in your team, such as knowledge, education, network, skills, and reputation?
- What physical assets do you have, such as customers, equipment, technology, cash, and patents?
- What competitive advantages do you have over your competition?

Weakness

These are weaknesses of a project or organization that may have a negative effect on achieving the intended objectives.

To determine what these weaknesses are, the following questions could be asked:

- What could be improved by the organization?
- What should especially be avoided within the organization or project?
- What are customers likely to see as our weaknesses?
- What factors make us lose customers or market share?
- Are there things that your business needs to be competitive?
- What business processes need improvement?
- Are there tangible assets that your company needs, such as money or equipment?

• Is your location ideal for your success?

Opportunities

These are the opportunities that present themselves for the organization or project. To determine what these opportunities are, the following questions could be asked:

• What interesting trends could the organization or project respond to?
• What are the opportunities for the organization or project?
• Is your market growing and are there trends that will encourage people to buy more of what you are selling?
• Are there upcoming events that your company may be able to take advantage of to grow the business?
• Are there upcoming changes to regulations that might impact your company positively?
• If your business is up and running, do customers think highly of you?

To answer the questions above, the following matters might be of influence: technological developments, policy developments from the government, changes within the target group, new suppliers, etcetera.

Threats

These could be possible obstacles that can negatively influence the project or organization from the market. To determine what these threats are, the following questions could be asked:

• What possible obstacles or external risk can be identified for the organization or project?
• What is the financial situation of the project or organization?
• Can new technologies pose a threat to the organization or project?
• Do the identified weaknesses pose a threat for the project or organization?
• How can we meet the quality requirements of the market and how can we compete with other suppliers?

• What possible obstacles or external risk can be identified for the organization or project?
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• How can we meet the quality requirements of the market and how can we compete with other suppliers?

Internal environment	
Strengths (S)	**Weaknesses (W)**
Excellent sales staff with strong knowledge of existing products Good relationship with customers Good internal communications High traffic location Successful marketing strategies Reputation for innovation	Currently struggling to meet deadlines - too much work? High rental costs Market research data may be out of date Cash flow problems Holding too much stock Poor record keeping

External environment	
Opportunities (O)	**Threats (T)**
Similar products on the market are not as reliable or are more expensive Loyal customers Product could be on the market for Christmas Customer demand - have asked sales staff for similar product	Competitors have a similar product Competitors have launched a new advertising campaign Competitor opening shop nearby Downturn in economy may mean people are spending less

INDIVIDUAL TASK: SWOT analysis of Choosen Company according to the TOP-100 World brands and TOP brands in Agriculture.

INFORMATION LINKS

1. *Buyer Behaviour http://www.fao.org/3/w3240e/W3240E05.htm#ch5*
2. *TOP-100 World brands https://www.interbrand.com/best-brands/best-global-brands/2019/ranking/*
3. *The World's Most Valuable Brands https://www.forbes.com/powerful-brands/list/*
4. *Top Ten Agribusiness Companies in the World https://www.tharawat-magazine.com/facts/top-ten-agribusiness-companies/*
5. *List of Agriculture Companies https://www.ranker.com/list/agriculture-companies/reference*
6. *SWOT analysis https://strategicmanagementinsight.com/tools/swot-analysis-how-to-do-it.html*

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6. International Trade Statistics [Electronic resource]: report / WTO Publications: World Trade Organization. – 239 [16] c. – Access

TEST QUESTIONS

5. According to research, there are three factors that influence consumer buyer behavior:
   a) psychological, personal, and social
   b) cultural, organizational, and psychological
   c) internal, external, and social
   d) economic, social, and personal
6. The social factors influencing consumer-buying behavior include:
   a) Advertising and media
   b) Prices and interest rates
   c) Occupation and income
   d) Gender and education
7. This is the study of consumers and how they make decisions.
   a) Industrial Marketing
   b) Media research
   c) Consumer Behavior
   d) Social Intelligence
8. Three basic types of buyers

a) classic, conservative, spendthrifts
b) tightwads, spendthrifts, middle spendthrifts
c) high motivated, motivated, not motivated
d) unconflicted, tightwads, spendthrifts

9. Planning method used to evaluate opportunities, strengths, weaknesses and threats of a business
a) Decision making
b) SWAT analysis
c) Market Research
d) SWOT analysis

10. Consumer behavior models
a) the black box, the white box, the red box
b) tightwads, unconflicted, spendthrifts
c) the black box, personal variables complex models
d) individual, common, personal variables complex models

11. Focus Groups means…
a) particular consumers group
b) offline-consumers - an independent third party
c) consumers group that buy similar products

12. The black-box model is based on…
a) internal stimulus-response
b) external stimulus-response
c) advertising
d) personal opinions, belief systems, values

13. Personal variables consumer behavior model is based on…
a) consumer characteristics
b) external stimulus
c) decision process and consumer responses
d) personal opinions, belief systems, values

14. The Economic Model of Consumer Behavior focuses on…
a) the idea of getting the most benefits while minimizing costs
b) minimizing costs
c) maximizing costs
d) all listed answers

Topic 8. MARKETING RESEARCH AND INFORMATION SYSTEM

Purpose. The purpose of this topic is to examine the nature and techniques of international marketing research. The topic investigates such topics as types of data, types of data collection methods, sampling, and measure. The discussion emphasizes the difficulties associated with cross-cultural research and the necessity for adapting marketing research techniques to international markets.

The student will observe that the term used here is that of ‘marketing research’ rather than ‘market research’. This is in recognition of the fact that a great deal of the research effort is typically devoted to identifying marketing problems (e.g. improved distribution systems, packaging development, studies of business trends, long range forecasts of demographics etc.) whereas the narrower term, ‘market research’ is indicative only of research into markets.

The specific objectives of this topic are to assist the student gain an understanding of:

- The role of both marketing research in marketing management decision making
- The content of the briefing that those who commission marketing research must give to the individuals charged with carrying out marketing research
- What those who commission marketing research must ensure is included in the proposals submitted by internal or external suppliers of marketing research
- The structure of a good research report.

Ability to create and use SEGMENTATION TREE

QUESTIONS

1. What are the difficulties in using and comparing secondary data from a number of countries?
2. Why is it difficult to employ probability sampling techniques in developing countries?
3. Distinguish among: back translation, parallel-blind translation, committee approach, random probe, and decentering.
4. Distinguish between internal and external validity. What are the implications of external validity for international marketers?
5. What are the desirable characteristics of the MIS and IMIS?
6. What are the key characteristics of qualitative research?
7. What are the 2 forms of experim
8. List the main problems to be aware of when making use of secondary data.
9. Explain how the thematic apperception test method is applied in marketing research.
10. What is the advantage of drawing probabilistic samples?
11. What term is used to indicate the leader of a focus group session?

DISCUSSION ASSIGNMENTS AND MINICASES

1. Would Tokyo be a good test market? Why or why not?
2. Do you prefer observation or questioning in collecting overseas data?
3. Cite certain kinds of behavior so common in the USA that they are often taken for granted by Americans - but not by foreign observers.
4. Discuss the reliability and validity problems in conducting a cross-national comparison study with the use of a standardized questionnaire.
5. Dieting and jogging are concepts which Americans can easily relate to. Are they understood by non- Americans?
6. Do demographic variables have universal meanings? Is there a likelihood that they may be interpreted differently in different cultures?
7. After learning of no import barriers to its product, a US processed food manufacturer

conducted market research in Japan to determine the degree of interest in cake mixes. The results were encouraging: the Japanese enjoy eating cakes. Concluding that there was no reason why Japanese consumers would not want to buy ready-made cake mixes, the company proceeded to persuade Japanese supermarkets to carry its product. The sales were extremely disappointing. Did the Japanese interviewed mislead the manufacturer? Or did the manufacturer fail to ask enough or the right questions?

8. As a researcher, you have just been asked to do market research in order to make recommendations on how to market coffee in a number of Asian, European, and South American countries. What questions do you need to ask in order to understand the varying buying motives, consumption habits, and uses of this particular product?

The solution would have been to have undertaken a study which would have described the market in detail in terms of customers, competitors and the environment. The company could then have put a marketing plan together and then conducted a follow up study to test their propositions out on the marketplace.

CASE 8.1 The Lake Turkana Fish Cannery

The n Government was interested in encouraging the nomadic people in the North West of the country to establish settlements. This would allow their children to receive proper schooling and health and social services could be better provided to the tribe. However, if they did settle, the Turkana would need a means by which to earn a living in place of the subsistence achieved through migratory goat herding. With the assistance of international development agencies, the Kenyan Government provided equipment that would enable the tribe to commercially fish Lake Turkana. In addition a cannery was built on the shores of the lake to process and pack the fish and so increase the wealth flowing into the region. It was implicity assumed that fish taken from the lake would be sold to the conveniently sited cannery. What actually happened was that a large percentage of the catch was never offered to the cannery. Such was the gap between the supply and demand for fish in the country that traders were willing to travel from places as distant as Nairobi -a tough six hour journey-to secure fish supplies.

A substantial amount of research was undertaken in the course of designing this development project but none of the parties involved gave explicit consideration to the notion that increasing fish supplies would impact upon the Kenyan fish marketing system as a whole. Rather, the implicit assumption was that the project would have a localised effect.

Observation: Methods of data collection involving directly or indirect, human or mechanical measurement of behaviour, are termed observational methods. These can be particularly useful in situations where the respondent is either unable or unwilling to report past behaviour, or in cross-cultural research where it is possible that imperfect translation of the questions can occur. Observation methods are also called naturalistic inquiries because, in their purest form, such studies demand a natural setting. This is because behaviour takes its meaning as much from their context as they do from themselves. Examples of observation methods include pantry and dustbin audits, and physiological measurements.

CASE 8.2 Antiguan Horticultural Produce Finds Its Niche By Researching The Market

The small island of Antigua in the West Indies suffered an oversupply of tomatoes and cucumbers between November and March. This precisely matches a period in the UK when there is no local supply of this produce. The island is visited three times per week by a 747 jumbo jet enroute to the UK. These circumstances suggested that there would be prospects of Antigua being able to export tomatoes and cucumbers to the UK market.

Before going further a study of the British market was undertaken. The marketing research quickly established that Antiguan tomatoes and cucumbers could not compete on either price or quality. However, the same study revealed that there were opportunities for Antiguan produce in serving the needs of the British Asian and West Indian markets for tropical fruits and vegetables. The study suggested that there was a demand for mangoes, okra, chilli, bitter gourd and scotch bonnet peppers.

A test marketing programme was established in which sample consignments were sent to a panel of six importers in the UK. These importers were asked to provide feedback on how produce quality and presentation could be improved and what prices could be obtained. The Antiguans also used this exercise to evaluate the type of importer they should select to handle their produce.

At the end of the marketing research programme one importer was selected by the Antiguan growers and he was chosen because he supplied the West Indian community. Examples of packaging used in the UK was sent back to Antigua and copied by a Caribbean packaging company. Samples of competing products were also shipped back to let Antiguan growers see the quality of produce that they would need to match. A very favorable air freight rate was negotiated with the airline for regular shipments of over a tonne of horticultural produce.

Antiguan growers proved themselves to be marketing oriented. Their programme was market-driven being based on research into existing competition and the needs of intermediaries and customers. The test marketing enabled growers and exporting organisations to learn, on a small scale what was necessary to export and market the produce and the importer/wholesaler was chosen on the basis of his ability to reach the target market

Guidelines on report content and presentation

The results of marketing research must be effectively communicated to management and the commissioner of the research should, on behalf of him/herself, and the marketing colleagues who intend to act on the report, that is both clear and concise. Presenting the results of a marketing research study to management generally involves a formal written report as well as an oral presentation. The report and presentation are extremely important. First because the results of marketing research are often intangible (after the study has been completed and a decision is made there is very little physical evidence of the resources such as time and effort, that went into the project); the written report is usually the only documentation of the project. Second, the written report and the oral presentation are often the only aspect of the study to which marketing executives are exposed, and consequently the overall evaluation of the research project rests on how well this information is communicated. Third, since the written research report and oral presentation are typically the responsibility of the marketing research supplier, the effectiveness with which the results are communicated and the usefulness of the information provided plays a crucial role in establishing the reputation of the researcher.

Preparing a research report involves other activities besides writing; in fact, writing is actually the last step in the preparation process. Before writing can take place, the results of the research project must be fully understood and thought must be given to what the report will say. Thus, preparing a research report involves three steps: understanding, organising and writing. The general guidelines that researchers should be encouraged to followed for any report are as follows:

1) *Think of the audience:* The information resulting from the study is ultimately of importance to marketing managers, who will use the results to make decisions Thus, the report has to be understood by them; the report should not be too technical and jargon avoided wherever possible. For example, where statistical tests have been applied it should not be assumed that the reader understands terms such as significance level, degrees of freedom, type 1 errors etc. Rather, where necessary these should be explained in non-technical terms.

2) *Be concise yet complet:* On the one hand, a written report should be complete in the sense that it stands by itself and that no additional clarification is needed. On the other hand, the report must be concise and must focus on the critical elements of the project and must exclude issues that are not material to the decisions that the managers wishes to be in a position to make.

3) *Understand the results and draw conclusions*: The managers who read the report are expecting to see interpretive conclusions in the report. The researcher must therefore understand the results and be able to interpret these. Simply reiterating facts won't do, and the researcher must ask him/herself all the time "so what"; i.e. so what are the implications of this particular result.

CASE. Group task. 3 students in one group.

Marketing case: UkrLandFarming – China Market (corn)

Company slogan: ***We work hard and with dedication to supply food to millions of people.***
We believe that the world is an interconnected place. Ukrlandfarming's universe is our land where we grow grain, it is our animals that we feed the grain to, it is technology and knowledge. We have designed a highly efficient and safe production cycle; we support people's livelihoods and give them satisfaction from high-quality food products.

The company uses equipment by the world's top manufactures. They grow grain, produce eggs, milk and meat, and process them into various products for human and animal consumption. They supply our home market and export to more than 40 countries all over the globe. Company is an active member of several international business and industry associations.

- ✓ What goals do we set for ourselves in marketing as subjects of the agrarian market?
- ✓ Research of the World market
- ✓ Problems in entering to the new market?
- ✓ Threats in entering to the new market?
- ✓ When to go to the new market?
- ✓ Who we will be in this market - pioneers or followers?
- ✓ How to enter - mass capture or gradual expansion?
- ✓ Staff Requirements
- ✓ Choose type of export (direct, indirect or joint). As a rule, agrarians are involved in indirect exports.

You need to make an assessment of all the benefits, risks, resources, investments and you get a large set of alternatives, from which you need to choose the best one.
https://www.ulf.com.ua/en/company/about-company/

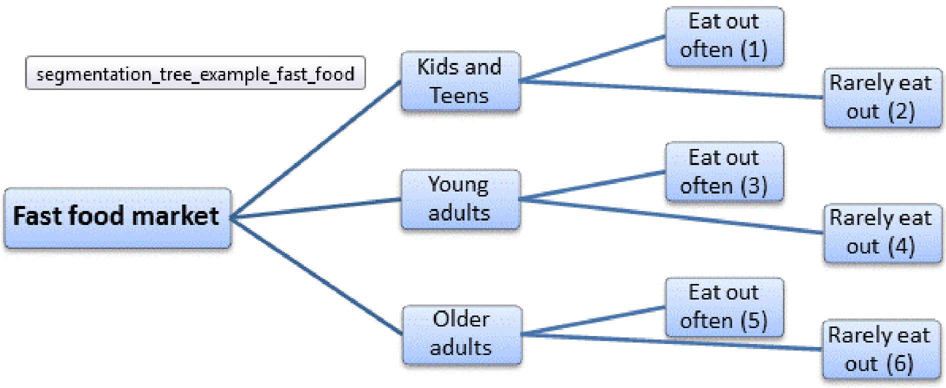
INFORMATION LINKS

1. Ukrlandfarming: https://www.ulf.com.ua/en/company/about-company/
2. Marketing research http://www.fao.org/3/w3240e/W3240E11.htm#ch11
3. The Role Of Marketing Research http://www.fao.org/3/w3241e/w3241e02.htm
4. 10 Essential Market Research Methods https://www.brandwatch.com/blog/market-research-methods/
5. Market research https://www.marketresearch.com/
6. Marketing Research https://businessjargons.com/marketing-research.html
7. Segmentation tree https://www.segmentationstudyguide.com/understanding-market-segmentation/main-tools-use/

MARKETING TOOL

Segmentation tree

A segmentation tree is a variation of a decision tree, which visually shows the division of a market into smaller possible market segments.
This approach is helpful when valid statistical or research data is not available. The following diagram is a simple example for a segmentation tree.
As you can see, in this approach the overall market branches out like a tree.



Each market segment needs to be assessed on a number of factors (please refer to the criteria for evaluating segments). Provided the defined market segments are still attractive (profit/size considerations) and are unique in their behavior any number is fine.

As a starting exercise for a firm, typically at least three to four different market segments would be identified and potentially looking at up to 10-12 segments. You will sometimes hear of large firms that have 25 or more target markets, but they typically operate in multiple markets and countries.

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INDIVIDUAL TASK: Segmentation tree of Choosen Company according to the TOP-100 World brands and TOP brands in Agriculture

TEST QUESTIONS

1. Data being collected by the researcher since the data does not currently exist
   a) Market research
   b) Analysis
   c) Segmentation
   d) Clustering
2. Involves data being collected by the researcher since the data does not currently exist
   a) Primary research
   b) Secondary research
   c) Third-degree research
   d) Desk research
3. Focusses on the comments, suggestions and opinions of respondents
   a) Quantitative research
   b) Qualitative research
   c) Quarterly research
   d) Shareholders research
4. Collection and interpretation of statistical and numerical data for market research purposes
   a) Quantitative research
   b) Qualitative research
   c) Quarterly research
   d) Shareholders research
5. Using data and information that has already been collected by another party (already exists)
   a) Secondary research
   b) Secondary sampling
   c) Primary research
   d) Field research
6. Primary data can be obtained from....
   a) It costs less to obtain
   b) It is specific to the nature and purpose of the research
   c) Less time consuming to produce as it already exists
   d) The data is less costly to produce as it already exists
7. A key difference between qualitative and quantitative market research is
   a) One requires primary research, the other secondary

b) Qualitative methods require a large sample size
c) Quantitative methods require a large sample size
d) Quantitative research can be statistically analysed

8. The role of marketing research is unlikely to serve which following purpose?
a) Establish lowest cost suppliers
b) Provide up-to-date information
c) Analyse customer reactions to new products
d) Enable marketing strategies to be improved

9. The first three steps of marketing research process consists of (in order):
a) Select a Research Method, Collect Data, Analyze Data
b) Define a problem, Develop research plan, Implement the plan
c) Collect Data, Analyze Data, Draw Conclusions
d) Select a Research Method, Define the Question, Collect Data

10. What is a mass market?
a) where the needs of customers are very different
b) where the customer needs are too specific
c) where there are no customers
d) where the customer needs are not too specific

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Topic 9. FOREIGN MARKET ENTRY STRATEGIES

Purpose. Purpose of this topic is to discuss the advantages and disadvantages associated with each method of market penetration. Factors that have an impact on the appropriateness of entry methods are covered in order to provide guidelines for the selection of market entry strategies. The chapter ends with an examination of foreign trade zones, which may be used to complement most entry strategies.

Be able to useBOSTON CONSULTING GROUP / BCG MATRIX in practice

An organisation wishing to "go international" faces three major issues:

i) Marketing - which countries, which segments, how to manage and implement marketing effort, how to enter - with intermediaries or directly, with what information?

ii) Sourcing - whether to obtain products, make or buy?
iii) Investment and control - joint venture, global partner, acquisition?

Decisions in the marketing area focus on the value chain. The strategy or entry alternatives must ensure that the necessary value chain activities are performed and integrated.

CASE 9.1 *Nali Producers - Malawi*

Nali group, has, since the early 1970s, been engaged in the growing and exporting of spices. Spices are also used in the production of a variety of sauces for both the local and export market. Its major success has been the growing and exporting of Birdseye chilies. In the early days knowledge of the market was scanty and thus the company was obtaining ridiculously low prices. Towards the end of 1978 Nali chilies were in great demand, yet still the company, in its passive mode, did not fully appreciate the competitive implications of the business until a number of firms, including Lonrho and Press Farming, started to grow and export.

Again, due to the lack of information, a product of its passivity, the firm did not realise that Uganda, with their superior product, and Papua New Guinea were major exporters, However, the full potential of these countries was hampered by internal difficulties. Nali was able to grow into a successful commercial enterprise. However, with the end of the internal problems, Uganda in particular, began an aggressive exporting policy, using their overseas legations as commercial propagandists. Nali had to respond with a more formal and active marketing operation. However it is being now hampered by a number of important "exogenous" factors.

The entry of a number of new Malawian growers, with inferior products, has damaged the Malawian chili reputation, so has the lack of a clear Government policy and the lack of financing for traders, growers and exporters.

The latter only serves to emphasise the point made by Collett, not only do organisations need to be aggressive, they also need to enlist the support of Government and importers.

It is interesting to note that Korey (1986) warns that direct modes of market entry may be less and less available in the future. Growing trading blocs like the EU or EFTA means that the establishing of subsidiaries may be one of the only means forward in future.

Whilst not strictly speaking an entry-strategy, EPZs serve as an "entry" into a market. They are primarily an investment incentive for would be investors but can also provide employment for the host country and the transfer of skills as well as provide a base for the flow of goods in and out of the country. One of the best examples is the Mauritian EPZ12, founded in the 1970s.

CASE 9.2. The Mauritian Export Processing Zone

Since its inception over 400 firms have established themselves in sectors as diverse as textiles, food, watches. And plastics. In job employment the results have been startling, as at 1987, 78,000 were employed in the EPZ. Export earnings have tripled from 1981 to 1986 and the added value has been significant- The roots of success can be seen on the supply, demand and institutional sides. On the supply side the most critical factor has been the generous financial and other incentives, on the demand side, access to the EU, France, India and Hong Kong was very tempting to investors. On the institutional side positive schemes were put in place, including finance from the Development Bank and the cutting of red tape. In setting up the export processing zone the Mauritian government displayed a number of characteristics which in hindsight, were crucial to its success.

· The government intelligently sought a development strategy in an apolitical manner

· It stuck to its strategy in the long run rather than reverse course at the first sign of trouble

· It encouraged market incentives rather than undermined them

· It showed a good deal of adaptability, meeting each challenge with creative solutions rather than maintaining the status quo

· It adjusted the general export promotion programme to suit its own particular needs and characteristics.

· It consciously guarded against the creation of an unwieldy bureaucratic structure.

Organisations are faced with a number of strategy alternatives when deciding to enter foreign markets. Each one has to be carefully weighed in order to make the most appropriate choice. Every approach requires careful attention to marketing, risk, matters of control and management. A systematic assessment of the different entry methods can be achieved through the use of a matrix (see table 8.1).

Table 9.1 Matrix for comparing alternative methods of market entry

	Entry mode								
Evaluation criteria	**Indirect export**	**Direct export**	**Marketing subsidiary**	**Counter trade**	**Licensing**	**Joint venture**	**Wholly owned operation**	**EPZ**	
a) Company goals									
b) Size of company									
c) Resources									
d) Product									
e) Remittance									
f) Competition									
g) Middlemen characteristics									
h) Environmental characteristics									
i) Number of markets									
j) Market									
k) Market feedback									
l) International market learning									
m) Control									
n) Marketing costs									
o) Profits									
p) Investment									
q) Administration personnel									
r) Foreign problems									
s) Flexibility									
t) Risk									

QUESTIONS

1. Briefly explain these market entry strategies: exporting, licensing, joint venture, manufacturing, assembly operations, management contract, turnkey operations, and acquisition.
2. What is cross-licensing or grantback?
3. What are the factors that should be considered in choosing a country for direct investment?
4. What is an FTZ? What are its benefits?

DISCUSSION ASSIGNMENTS AND MINICASES

1. Since exporting is a relatively risk-free market entry strategy, is there a need for a company to consider other market entry strategies?
2. Can a service be licensed for market entry purposes?
3. In spite of the advantages of foreign trade zones, most companies have failed to use them effectively. What are the reasons? Can anything be done to stimulate the interest?
4. Each year, foreign companies generate some $10 billion in capital and 300,000 new jobs for the US economy. As may be expected, US politicians, states, and local governments have competed aggressively for foreign direct investment. Discuss the business of attracting foreign corporations from the viewpoints of both the companies and the states. What are the matters of concern to companies which they will take into consideration when making their location decisions? What are the incentives which states can offer to lure businesses to locate in a particular state?

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5. International Market Entry Strategies: Relational, Digital, and Hybrid Approaches https://journals.sagepub.com/doi/full/10.1509/jim.17.0034
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MARKETING TOOL

BOSTON CONSULTING GROUP / BCG MATRIX

BCG matrix is a framework created by Boston Consulting Group to evaluate the strategic position of the business brand portfolio and its potential. It classifies business portfolio into four categories based on *industry attractiveness* (growth rate of that industry) and *competitive position* (relative market share).

These two dimensions reveal likely profitability of the business portfolio in terms of cash needed to support that unit and cash generated by it. The general purpose of the analysis is to help understand, which brands the firm should invest in and which ones should be divested.

Market share is the percentage of the total market that is being serviced by your company, measured either in revenue terms or unit volume terms.

Relative Market Share

$$RMS = \frac{\text{Business unit sales this year}}{\text{Leading rival sales this year}}$$

The higher your market share, the higher proportion of the market you control.

Higher corporate's market share results in higher cash returns. This is because a firm that produces more, benefits from higher economies of scale and experience curve, which results in higher profits. Nonetheless, it is worth to note that some firms may experience the same benefits with lower production outputs and lower market share.

Market growth is used as a measure of a market's attractiveness.

$$MGR = \frac{\text{Individual sales this year} - \text{individual sales last year}}{\text{Individual sales last year}}$$

Markets experiencing high growth are ones where the total market share available is expanding, and there's plenty of opportunity for everyone to make money.

High market growth rate means higher earnings and sometimes profits but it also consumes lots of cash, which is used as investment to stimulate further growth. Therefore, business units that operate in rapid growth industries are cash users and are worth investing in only when they are expected to grow or maintain market share in the future.

It is a portfolio planning model which is based on the observation that a company's business units can be classified in to four categories:

- *Stars* - leaders in business
- *Question marks*. Most businesses start of as question marks. They will absorb great amounts of cash if the market share remains unchanged, (low).
- *Cash cows* are the most profitable brands and should be "milked" to provide as much cash as possible
- *Dogs* are the cash traps. Dogs do not have potential to bring in much cash

It is based on the combination of market growth and market share relative to the next best competitor.

BCG MATRIX is simple and easy to understand.

It helps you to quickly and simply screen the opportunities open to you, and helps you think about how you can make the most of them.

It is used to identify how corporate cash resources can best be used to maximize a company's future growth and profitability.

It's a good starting point for further more thorough analysis.

INDIVIDUAL TASK: BCG Matrix of Choosen Company according to the TOP-100 World brands and TOP brands in Agriculture, selected company

TEST QUESTIONS

1. Strategy in which a company, without any marketing or production organization overseas, sells a product from its home
   a) FDI
   b) Exporting
   c) Licensing
   d) Manufacturing
2. Agreement that permits a foreign company to use industrial property (patents, trademarks, and copyrights)...
   a) FDI
   b) Exporting
   c) Licensing
   d) Manufacturing
3. An owner of a valuable brand name can benefit greatly from using this foreign market entry strategy
   a) FDI
   b) Exporting
   c) Licensing

d) Manufacturing

4. Franchising is the form of ...
   a) FDI
   b) Exporting
   c) Licensing
   d) Manufacturing
5. Partnership at corporate level, and it may be either domestic or international
   a) Joint Venture
   b) Manufacturing
   c) Foreign Direct Investment
   d) Exporting
6. .... used as a sound strategy for entering a market with a minimum investment and minimum political risks
   a) Licensing
   b) Management contract
   c) Manufacturing
   d) Franchising
7. Firms tend to use...when they enter markets that are characterized by high legal restrictions or investment risks
   a) Licensing
   b) Management contract
   c) Manufacturing
   d) Joint Venture
8. The goal of ... strategy may be to set up a production base inside a target market country as a means of invading it
   a) Foreign Direct Investment
   b) Exporting
   c) Franchising
   d) Manufacturing

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Topic 10. PRODUCT STRATEGIES: BASIC DECISIONS AND PRODUCT PLANNING

Purpose. The purpose of this topic is to study *product* in an international context. The discussion focuses on the meaning of product and the necessities of market segmentation and product positioning. Other topics include product development and services.

This chapter is intended to provide:

- An understanding of the three levels at which a product or service can be marketed
- A clear distinction between a product mix and a product line
- An explanation of the role of product positioning in gaining a competitive edge
- An overview of the advantages and disadvantages of branding agricultural products
- An appreciation of the decisions which have to be made with respect to branding and
- An awareness of the role packaging can play as a component of the product mix.

To be able use GE McKinsey MATRIX in practice

A product's physical properties are characterised the same the world over. They can be convenience or shopping goods or durables and nondurables; however, one can classify products according to their degree of potential for global marketing:

i) local products - seen as only suitable in one single market.

ii) international products - seen as having extension potential into other markets.

iii) multinational products - products adapted to the perceived unique characteristics of national markets.

iv) global products - products designed to meet global segments.

QUESTIONS

1. By marketing in a foreign country, must a firm automatically employ geographic segmentation or other segmentation bases?
2. Explain (in the international context) how these product attributes affect product adoption: relative advantage, compatibility, trialability/divisibility, observability, complexity, and price.
3. Describe briefly the IPLC theory and its marketing implications.
4. Describe the factors that make it feasible to offer a standardized product.
5. Offer your arguments for product adaptation.
6. What factors are important in the standardisation versus adaptation product decision process?
7. Describe the principle elements of "the product". Give examples.
8. Describe, with examples, the five major product strategies available to global marketers.

Table 10.1 Checklist of questions on product requirements by market

Existing sources of supply	Recommendations for new suppliers, or increased supply
Current important suppliers? Seasonality of supply, start of season, peak season and end of season? Packaging specifications, weight of produce per packaging unit, type of packaging? Grading and quality standards? Prices obtained and net profit returned to farmer, average price, maximum and	Best period of supply? Type and size of packaging material? Grading and quality standards: *acceptable size ranges? *whether different sized produce should be packed separately or jumble-packed?

minimum prices, effect of different quality standards on price? Problems with existing suppliers and produce? Volumes sold daily, monthly, annually? Popularity trend? Types of buyers and consumers? Use of crop? Factors affecting sales, e.g. weather, special festivals, day of arrival in market? Is the crop stored; if so where and by whom?	*state of ripeness and should produce of the same ripeness be packed together? *acceptable level of blemishes? *important appearance characteristics such as colour, variety, shape, presence of stalks, bunch size? Budget gross and net prices? Volumes required? Frequency of shipment, best day and arrival time on market? Transport arrangements, e.g. whose responsibility is it to arrange transport? Storage arrangements, if any? Potential and techniques for developing sales?

DISCUSSION ASSIGNMENTS AND MINICASES

CASE 10.1 Cotton Production/Marketing Interface

Spinners

Machines are highly flexible, that is they can usually switch to a variety of yarn requirements. The machines are geared to high production, are automated and are of a precision for constant quality provision. There are strict process controls and built - in quality control. Poor raw material, especially when contaminated with metal particles, damages opening mills, grid knives, fans and card clothing. Previous devices employed to remove these (magnets) are becoming less effective. The consequences are damage in the blowroom and carding and danger of fire. Quality is therefore defined as properties of the end use (clothing etc.), efficiency of weaving and knitting and the efficient running of the spinning plant. Spinners require raw cotton which is free of trash, dust, sugar and honey dew contamination, seed coats, bark and foreign fibres and, will not nep the cloth. Further requirements are a certain length (could be short, medium or long), uniformity of length, strength, fineness, maturity and a certain elongation and colour.

Suppliers

In order to meet these high quality demands, the growers have to ensure that the production, picking and ginning is of a very high standard.

Cotton grading

The Liverpool Cotton exchange, for one, relied on the skills of its experts to manually classify raw fibre purchases for its clients. It still holds the "standards" for length, colour and trash content. As well as the demands of modem machinery, the lack of standardised measuring and cotton classification procedures has resulted in commercial conflict and legal disputes about the true nature of traded cotton. Now, computer based high volume instrument listing systems of raw cotton (HVI systems) are available. The system can handle large numbers of bales, reduce variation in classification and the need for highly trained bate classifiers.

For cotton exporters the system offers the following advantages:

· enhanced objectivity in classification
· improve communication if similar systems are used by sellers or buyers
· reduced conflict and need for arbitration
· enhanced competitiveness against synthetic fibres
· improved integration with modern spinning machines
· reduced costs on training of experts and in measuring time.

The system can process 2000 bales per day and give a printout on the seven parameters of grading. These include length and length uniformity, strength and elongation, micronaire or fineness, leaf and colour. Manufacturers include SPINLAR INC. of Knoxville, USA.

The choice of strategy will depend on the most appropriate product/market analysis and is a function of the product itself defined in terms of the function or need it serves, the market defined in terms of the conditions under which the product is used, the preferences of the potential customers and the ability to buy the product in question, and the costs of adaptation and manufacture to the company considering these product - communications approaches.

Table 10.2 International strategic alternatives

Product strategy	Communications strategy	Product/functions Met	Conditions of product use	Examples
1 Extension	Extension	Same	Same	Pepsi
2 Extension	Adaptation	Different	Same	Soups
3 Adaptation	Extension	Same	Different	Agriculture chemicals
4 Adaptation	Adaptation	Different	Different	Farm implements
5 Invention	New	Same	-	Tyson turbine water pump
				Thailand tuna

CASE 10.2. Thailand Tuna

The case of Thai Tuna is a good example of the fifth product strategy alternative. In 1980 world canned tuna imports stood at some 110,000 tons, world consumption was stagnant, prices depressed and rising operating costs were leading to the closure of the tuna processing facilities in the US, Japan and Europe. However, up to 1990, world tuna imports quadrupled to 437,000 tons with large scale canning operations shifting to several lower cost developing countries.

No country experienced the dramatic development more than Thailand. In 1980 it did not export one single can. In 1990, Thailand exported 225,000 tons (51% of world market share) with a gross value in 1989 of US$ 537 million. The Thai industry development was rapid and interesting because it was based on imported raw materials. Tuna landings by Thai vessels rarely exceeded 30,000 tons, whilst its imports of foreign tuna (mostly skipjack) has increased past the 250,000 ton mark. The reason for this was the shift in fishing patterns. Historically the eastern Atlantic and Pacific were the most important areas but in the 1970s, US vessels began to exploit the tuna shoals of the Western Pacific and European vessels the Indian Ocean. The result was the increase of landings from 1,7 million tons in 1980 to 2,5 million tons in 1988, but a significant drop in prices accompanied this increase. Thailand was in a position to capitalise on these new low cost suppliers and in the early to mid 1980s several fruit and vegetable canners and other entrepreneurs invested in large modern processing facilities specially for fish. Their operating costs were kept low by efficient management, low cost labour, backward integration into production and the efficient use of by products from processing. This was basically an "invention" product strategy. In order to gain access to and capitalise on the expanding markets in the US and Europe (except France which favoured Francophone African suppliers) Thai canners entered into packaging arrangements with American and European firms. Latter, Thailand's largest processor look over the third largest tuna canner in the US, enabling it to take advantage of the llatter's exclusive distribution network and well-established brand names.

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8. Organization for Economic Co-operation and Development oecd.org
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MARKETING TOOL

GE McKinsey MATRIX

GE-McKinsey nine-box matrix is a strategy tool that offers a systematic approach for the multi business corporation to prioritize its investments among its business units.

GE-McKinsey is a framework that evaluates business portfolio, provides further strategic implications and helps to prioritize the investment needed for each business unit (BU***).***

With limited resources, but many opportunities of using them, the businesses need to choose how to use their cash best. The fight for investments takes place in every level of the company: between teams, functional departments, divisions or business units. The question of where and how much to invest is an ever going headache for those who allocate the resources.

Multi business companies manage complex business portfolios, often, with as much as 50, 60 or 100 products and services. The products or business units differ in what they do, how well they perform or in their future prospects. This makes it very hard to make a decision in which products the company should invest. At least, it was hard until the BCG matrix and its improved version GE-McKinsey matrix came to help. These tools solved the problem by comparing the business units and assigning them to the groups that are worth investing in or the groups that should be harvested or divested.

The BUs are evaluated on two axes:

- ✓ industry attractiveness and
- ✓ competitive strength of a unit.

Industry attractiveness indicates how hard or easy it will be for a company to compete in the market and earn profits. The more profitable the industry is the more attractive it becomes. When evaluating the industry attractiveness, analysts should look how an industry will change in the long run rather than in the near future, because the investments needed for the product usually require long lasting commitment.

Competitive strength of a business unit or a product

Along the X axis, the matrix measures how strong, in terms of competition, a particular business unit is against its rivals. In other words, managers try to determine whether a business unit has a sustainable competitive advantage (or at least temporary competitive advantage) or not.

If the company has a sustainable competitive advantage, the next question is: “For how long it will be sustained?”

The following factors determine the competitive strength of a business unit: Total market share, Market share growth compared to rivals, Brand strength (use brand value for this), Profitability of the company, Customer loyalty

Advantages

- Helps to prioritize the limited resources in order to achieve the best returns.
- Managers become more aware of how their products or business units perform.
- It’s more sophisticated business portfolio framework than the BCG matrix.
- Identifies the strategic steps the company needs to make to improve the performance of its business portfolio.

Disadvantages

- Requires a consultant or a highly experienced person to determine industry's attractiveness and business unit strength as accurately as possible.
- It is costly to conduct.
- It doesn't take into account the synergies that could exist between two or more business units.

Difference between GE McKinsey and BCG matrices

GE McKinsey matrix is a very similar portfolio evaluation framework to BCG matrix. Both matrices are used to analyze company's product or business unit portfolio and facilitate the investment decisions.

Visual difference. BCG is only a four cell matrix, while GE McKinsey is a nine cell matrix. Nine cells provide better visual portrait of where business units stand in the matrix. It also separates the invest/grow cells from harvest/divest cells that are much closer to each other in the BCG matrix and may confuse others of what investment decisions to make.

Doing the GE McKinsey matrix and answering all the questions takes time, effort and money, but it's still one of the most important product portfolio management tools that significantly facilitate investment decisions

INDIVIDUAL TASK: Creating of Product strategy of Choosen Company according to the TOP-100 World brands and TOP brands in Agriculture

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Topic 11. PRODUCT STRATEGIES: BRANDING AND PACKAGING DECISIONS

Purpose. The purpose of this chapter is to acknowledge the strategic significance of branding and packaging and to examine some of the problems commonly faced by MNCs. Among the subjects discussed are brandless products, private brands, manufacturers' brands, multiple brands, local brands, worldwide brands, brand consolidation, brand protection, and brand characteristics. The strengths and weaknesses of each branding alternative are evaluated.

DISCUSSION ASSIGNMENTS AND MINICASES

CASE 11.1 PLANET RALPH: THE GLOBAL MARKETING STRATEGY OF POLO RALPH LAUREN

Deirdre Bird, Providence College, and Helen Caldwell, Providence College

Polo Ralph Lauren (PRL) is a highly successful US company. The thirty-fifth anniversary of the company has been covered in glowing terms across the globe. For example, Ralph Lauren was *interviewed for the prestigious British broadsheet, The Sunday Times, followed by a lecture at The British Museum in London. Vogue magazine profiled Lauren as "The Man Behind the Mega-Brand" while making the cover of both GQ (as a Man of the Year) and Architectural Digest. Time magazine presented Ralph Lauren as "A Bronx Cowboy in Europe," outlining Lauren's rise from Bronx kid Ralph Lifschitz to world-famous designer Ralph Lauren.*

Today's world of luxury in fashion

The primary customers for luxury products tend to be women aged between 30 and 50 in the upper income brackets, where the household earns over $100,000. In the USA, this categorization accounts for over fifteen million households. In the upper-middle category (with household incomes of $75,000 to $100,000), there are an additional twelve million households. However, in what has come to be termed the "democratization of luxury," people in all income brackets want to participate in the luxury market, even if that means buying nothing more than a $4 chai latte at Starbucks, or a $20 scarf at Gucci. Ralph Lauren recognized this himself when he described the desire for luxury as "aspirational."

Approximately thirty-five companies share 60 percent of the luxury goods market. The six top competitors, one of which is Polo Ralph Lauren, have annual revenues greater than $1 billion; fifteen to twenty companies have revenues between $500 million and $1 billion; and ten have revenues between $100 million and $500 million. These companies tend to have a product focus and thus do not all compete on equal terms in the various luxury categories. For instance, Richemont, a Swiss conglomerate, deals largely in watches, jewelry, and writing instruments, with brands such as Cartier, Piaget, and Mont Blanc. Hermes focuses on leather goods, selling ladies' bags for upwards of $4000. LVMH is the industry leader in luxury goods, followed by Richemont, and Gucci Group. Coming in fourth in the industry is Polo Ralph Lauren.

The Polo Ralph Lauren concept

PRL is a family-controlled company, in that its Chairman and CEO is designer and founder Ralph Lauren. However, the company is quoted publicly on the New York Stock Exchange. The company derives its revenues from three sources: retail, wholesale, and licensing.

The retail segment operates over 236 outlet and full-price stores, including the magnificent flagship stores in Manhattan, London, Paris, Boston, and Brussels. Retail sales contributed almost $1 billion to revenue in 2012.

The wholesale segment consists of two units: Polo Brands and Collection Brands, with each unit selling its own discrete brands to department and specialty stores, and to PRL-owned and licensed retail stores.This segment is responsible for the majority of the corporation's net sales (almost $1.2 billion in fiscal year 2012).

The licensing segment accounts for almost 10 percent of total sales, generating revenue from royalties through licensing alliances, whereby the licensee is granted the right to use the company's trademarks in connection with manufacturing and sale of certain products in specific geographical areas. As a result of a corporate strategy of increasing its global presence, PRL acquired its Italian licensee, Poloco S.A.S., thus allowing for greater integration of its European wholesale operations.

The Polo Ralph Lauren strategy

PRL intends to grow by brand extension and by globalization. In its brand extensions, the company aims to expand by "creating luxury and lifestyle brands that inspire people to live their dreams." The company has developed apparel labels which segment the upper end of the luxury market into Purple Label, Women's Collection and Black Label, and in its home furnishings division it has developed the Ralph Lauren Home collection. At a lower price point, Polo Blue Labels have been developed, and will be distributed exclusively in PRL stores in the USA, and in specialty stores in Europe, Asia, and Australia. In arrangements with its licensees in department stores, the company has developed Lauren for women and Lauren bedding and bath products.The recently acquired Club Monaco concept (formerly a fifteen-category Canadian company) has been rationalized to three categories of men's, women's, and accessories.

This brand extension strategy has required, and will continue to require, a very large advertising budget. The company uses a combination of television and multi-page magazine advertising, intended to illustrate the luxurious aspect of the brands. Advertising expenses in 2002 amounted to almost $80 million, or approximately 4 percent of net sales.

The global strategy

Based on a belief that there are enormous opportunities in Western Europe the company has plans to open new Ralph Lauren stores in Europe through the next several years. Similarly, development is planned in Asia, specifically in Japan, Hong Kong, and Korea, these latter countries being managed by licensed partners.

Currently, the USA accounts for almost 73 percent of company sales. Europe and Japan represent approximately 10 percent each, and Canada, Korea, Australia, and other small markets account for the remaining 7 percent of sales.Thus in the past Lauren has relied heavily on US sales. Much of this has come from department stores.

Points to consider

As Lauren ponders his corporation's future, the questions he needs to address are as follows:

1. Can an American brand built on the quintessential "American dream" succeed globally?
2. Will the PRL form of lifestyle marketing succeed globally?
3. Which brands would present the best global opportunities for PRL?

CASE 11.2 MAJORICA S.A. VS. R.H. MACY

Majorca is a place well known for its pearls. One Spanish firm, Majorica S.A., has used Majorica, an ancient name for Majorca, since 1954 as its trade name as well as a brand name to describe its pearls.

Majorica was alarmed to learn that R.H. Macy, a major US department store chain, was selling Majorcalabeled pearls that were made by Hobe Cie. Ltd., a competitor of Majorica S.A. Contacts with Macy produced no fruitful results in resolving the difficulty. Macy felt that it had a right to use the name in question because Majorca was the name of an island and because the pearls in question were indeed made there.

Subsequently, Majorica filed a lawsuit in a federal court, asking for a judgment to stop Macy using the name. Majorica S.A. cited trademark infringement as the reason for seeking relief. It argued that Macy's action caused confusion among consumers as well as erosion of goodwill.

Points to consider

1. Is Majorica a valid brand name or just a generic trademark? Does the fact that it is the name of a place (i.e., island) affect the registration eligibility and legal protection of Majorica S.A.?

2. Was Macy's action legally defensible? Assuming that you are a federal court judge, do you think that Macy's use of the name could cause consumer confusion? Do you think that Macy's labeling constituted trademark infringement? Can the branding/labeling be somehow modified to prevent consumer confusion?

QUESTIONS

1. What are the requirements that must be met so that a commodity can effectively be transformed into a branded product?
2. Explain the "least dependent person" hypothesis and its branding implications.
3. When is it appropriate to use multiple brands in (a) the same market and (b) several markets/countries?
4. What are the characteristics of a good international brand name?
5. Explain these legal requirements related to branding: (a) registration, (b) registration eligibility, (c) use, (d) renewal, and (e) generic trademark.
6. Distinguish colorable imitation from counterfeit trademark.
7. Cite the factors that may force a company to modify its package for overseas markets. Discuss both mandatory and optional

INFORMATION LINKS

1. Product Decisions http://www.fao.org/3/W5973E/w5973e0c.htm
2. Product Strategies Basic Decisions https://www.coursehero.com/file/16729127/ch10/
3. Product Strategies: Basic Decisions and Product Planning http://cw.routledge.com/textbooks/9780415772624/questions10.asp
4. Branding decisions https://marketing-insider.eu/branding-decisions/
5. Product Packaging and Branding https://courses.lumenlearning.com/boundless-business/chapter/product-packaging-and-branding/
6. International Monetary Fund www.imf.org

INDIVIDUAL TASK: Making branding and packaging decision for the Choosen Company according to the TOP-100 World brands and TOP brands in Agriculture

REFERENCE LIST

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3. Fiona Smith Agriculture and the WTO Towards a New Theory of International Agricultural Trade Regulation– 2009 – 165p.

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5. Journal of International Marketing [Electronic resource]: relevant articles on international marketing, bridging the gap between theory and practice. – Access mode: http://www.marketingpower.com/aboutama/pages/ama%20publications/ama%20journals/journal%20of%20international%20marketing/journalofinternationalmarketing.aspx

Topic 12. CHANNELS OF DISTRIBUTION

Purpose. The purpose of this topic is to discuss the various channels of distribution that are responsible for moving products from manufacturers to consumers. Both international and domestic channels are examined.

The objectives of this chapter are:

· To give an understanding of the institutional and physical aspects of channels of distribution in global marketing

· To describe the different channels of distribution and show their advantages and disadvantages and,

· To illustrate the importance and role of channels of distribution by reference to two case studies on cotton and horticultural produce.

Channels are an integrative part of the marketer's activities and as such are very important. They also give a very vital information flow to the exporter. As seen in chapter seven, the degree of control one has over a channel depends on the channel type which is employed. Whilst for developing countries, as stated earlier, channels are almost given, this is not always the case, and as exporting becomes more and more necessary, it will not always be the case. *In deciding on channel design the following have to be considered carefully*:

· Market needs and preferences

· The cost of channel service provision
· Incentives for channel members and methods of payment
· The size of the end market to be served
· Product characteristics required, complexity of product, price, perishability, packaging
· Middlemen characteristics - whether they will push products or be passive
· Market and channel concentration and organisation
· Appropriate contractual agreements
· Degree of control.

Factors in channel choice:

- ✓ company objectives and goals
- ✓ resources available
- ✓ market knowledge, coverage
- ✓ risk of business
- ✓ transaction costs
- ✓ marketing costs
- ✓ language
- ✓ space and time utilities
- ✓ currency risk
- ✓ provision of information on prices and competition
- ✓ payment system and credit
- ✓ integrity
- ✓ infrastructional soundness.

CASE 12.1 Marketing Small Ruminants In Indonesia

The village collector is a key figure in the marketing system since 50% of the animals are handled by him. He usually lives in the locality and provides several services vital to the effective operation of the marketing system. He bears at least part, and often all, of the risks inherent in trading by taking legal title to the animals. If an animal cannot be sold on a particular day or has to be sold at a low price then these costs are borne by the village collector. He also helps finance trade by paying the farmer 50% of the agreed price immediately and the balance after the next market day. The village collector also meets the transport costs. He increases the efficiency of the marketing system since unit transport costs are lower when several animals are transported to market. In Indonesia, most ruminants are farmed by smallholders who usually have a single animal to sell at a given time. Sometimes the village collector performs a storage function too by holding animals until market prices are acceptable.

Smallholders have alternatives to selling to the village collector. There is usually more than one village collector and also sedentary and itinerant "blantiks" or livestock traders who intercept farmers enroute to the market and strike a deal. Sedentary traders work a single market whilst itinerant traders trade in several markets. Neither the sedentary nor the itinerant trader is as familiar to the farmer as the village collector.

Another player in the marketing system is the "makelar" or broker. There are 2 types of brokers; the commission broker and the floor-price broker. Commission brokers charge a fixed selling fee. If the animal remains unsold then the farmer pays nothing to the commission broker. Floor-price brokers agree a price for the animal with the farmer. The broker then attempts to sell the animal above this price. If successful, he keeps the difference between the floor-price and the actual price as his margin. Unsold animals remain the property of the farmer.

The system serves producers well. Smallholders' supplies are erratic in that they send animals usually one at a time at irregular intervals to the market. However, since 1 in 5 rural households keeps sheep and/or goats there is, in aggregate, a stable supply to the market. The market itself is stable in that demand is fairly constant throughout the year except during periodic religious feasts when demand and prices can increase substantially. Thus the village collector makes an important contribution to the marketing system for small ruminants. He buys, taking title *and, of course he sells. He also helps perform other marketing functions, including assembling, finance, transportation, storage and risk bearing. In addition when he fattens the animals he adds value to the product.*

Itinerant and sedentary traders represent an alternative marketing channel for smallholders. The itinerant traders perform a similar range of marketing functions to those undertaken by the village collector. Their only disadvantage is that they are not generally as well known to smallholders as the village collector. Sedentary traders actually have more in common with brokers than with either village or itinerant traders in that they act more as an agent than a buyer. The sedentary trader offers fewer services to the farmers and therefore his margin tends to be lower than that of other types of trader. Arguably, brokers perform only two functions, i.e. selling and market intelligence. However, their existence does extend the level of competition in the system. The low level of services offered by brokers perhaps explains why 80% of the farmer's trade in small ruminants is through traders.

CASE 12.2 Dealer Relations At Caterpillar

Caterpillar Tractor Company has 230 dealers in over 140 countries handling its range of agricultural, construction and marine machines and engines. Having this extensive and high quality distributive system recognised both by the company, and the end-users of its products, as giving Caterpillar a strong competitive advantage.

Caterpillar pursues a dealer policy with the twin objectives of assisting in strengthening the profit performance of these independent businesses and enabling them to deliver an outstanding level of service to their customers. The implementation of this policy is evident in the terms and conditions applied to the sale of parts and equipment, the heavy investment in the parts supply system, the commitment to product training and the encouragement given to dealers to diversify their businesses. Terms and conditions of sale: Caterpillar operates a sale-or-return policy for all products and parts. This encourages dealers to carry the full product line and to enhance customer service levels by holding a very large number of parts in stock. Parts supply system, the heavy investment which Caterpillar has made in both computerising its inventory management system and in maintaining extensive parts inventories helps further improve customer service levels. Caterpillar dealers around the world are able to give fast parts delivery to their customers on any item. Almost all dealers in North America, Latin America, Europe and the Middle East can directly access Caterpillar's computerised inventory management systems and those of other dealers.

When launching new products, Caterpillar first establishes a two month parts supply within its dealerships. Dealers never find themselves in a position where they are unable to service a new machine. Product training: Caterpillar recognises that the dealer's personnel have to understand customer needs well enough to supply the right product. Accordingly the company sponsors a large number of training programmes for staff from its dealerships. Sometimes these programmes involve sending large numbers of dealer personnel to different countries and continents to attend courses or demonstrations and the financial outlay is considerable. The company is equally committed to keeping its own staff updated on product developments. Dealer diversification: Caterpillar positively encourages its dealers to diversify into other related businesses including the renovation of parts, which makes Caterpillar's machines cheaper to repair for customers. Dealer diversification also strengthens the financial base of those dealerships.

Competitors seeking to either penetrate Caterpillar's markets or attract its dealers face a difficult task. The Caterpillar dealer network is committed to marketing Caterpillar products. In part, this commitment is explained by the support dealers receive from Caterpillar, in the form of computerised stock systems, sale-or-return agreements, product training and the assistance given towards business diversification, but it is also a product of the company's basic attitude towards dealers, which is summed up in the words of its chairman, Lee Morgan. "We approach our dealers as partners in the enterprise, not as agents or middlemen.

QUESTIONS

1. Distinguish between direct and indirect selling channels. What are the advantages and disadvantages of these channels?
2. Explain these types of direct channel intermediaries: foreign distributor and state-controlled trading company.
3. Explain these types of indirect channel agents: EMC, cooperative exporter, and purchasing agent.
4. Explain these types of indirect channel merchants: export merchant, export drop shipper, export distributor, and trading company.
5. Explain hot, moderate, and cold countries as classified by the country temperature gradient. What are the channel implications of this classification system?
6. What are the factors that affect the length, width, and number of marketing channels?
7. Why is it difficult - financially and legally - to terminate the relationship with overseas middlemen? What should be done to prevent or minimize such difficulties?
8. What are gray market products? Are they legal?

DISCUSSION ASSIGNMENTS AND MINICASES

1. Do you think that the US ETCs can compete effectively with Japanese trading companies?
2. How should Japan be classified: hot, moderate, or cold? Do you think this classification may change in the future?
3. Should the distribution channels of Volkswagen and Porsche be the same?
4. Honda created a separate dealer network for its Acura brand. Is there a need for this expensive strategy?
5. Sony Corp. of America, in an effort to include retailing in its operations, runs its own licensed stores in Japan and Europe. In the USA, Sony has opened the Sony Gallery of Consumer Electronics in Chicago. Inside the store, "boom boxes" and camcorders are displayed on pedestals as if they were art objects, and the Walkman is displayed on trendy mannequins. The gallery includes a life-size mock-up of an apartment with a built-in Sony home theater system. Some retailers are concerned that Sony might turn out to be both their supplier and competitor. How should Sony deal with this concern?

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1. Distribution Decisions http://www.fao.org/3/w5973E/w5973e0e.htm
2. Channel Management And Physical Distribution http://www.fao.org/3/w3240e/W3240E09.htm
3. Distribution channels http://www.fao.org/3/y4530e/y4530e05.htm

INDIVIDUAL TASK: Channels of distribution for the Choosen Company according to the TOP-100 World brands and TOP brands in Agriculture

REFERENCE LIST

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3. Fiona Smith Agriculture and the WTO Towards a New Theory of International Agricultural Trade Regulation– 2009 – 165p.
4. Food Outlook: Global Market Analysis [Electronic resource]: biannual publication / editor C. Caple; FAO, Trade and Market Division. – Access mode: http://www.fao.org/giews/english/fo/

Topic 13. PHYSICAL DISTRIBUTION AND DOCUMENTATION

Purpose. This topic examines the various issues related to the process of moving a product from one country to another, beginning by comparing and contrasting the major transportation modes. The discussion then focuses on insurance and packing for export.

In this topic an attempt is made to explain:

The purposes and forms of distribution channels

How intermediaries improve the effectiveness and efficiency of a marketing system

Sources of conflict in distribution channels

Considerations in developing a customer service policy

The behaviour of costs attached to physical distribution functions

The key elements of transport and warehouse management and How vehicles can be routed in such a way as to control total transport costs whilst delivering an acceptable level of customer service.

CASE 13.1 Changing Tanzanian Distribution Systems For Lake Victoria Fish

Rosson suggests that the planners of development projects pay too little attention to the need for reform of traditional distribution systems when they seek to modernise agricultural production systems. His concern, in particular, is that power imbalances between producers and intermediaries are often the major constraint to attempts to improve production systems. He cites the case of the modernisation of Tanzania's Lake Victoria fisheries. The production system was backward, with the fishermen working from traditional canoes and relying on paddles for power and gill nets to make their catches. The government was interested in both improving the economic lot of its fishermen and increasing the supply of this high protein food for its consumers. The key to the situation proved not to be the modern fishing technology which the government was willing to finance, but the entrenched interests of the middlemen who provided a ready market for the catch, broke the catch down into small lots for individual consumers and helped finance the fishermen by supplying capital for equipment and cash advances during the seasonal troughs. The fisherman often had to pledge future catches to the lender as repayment for the loans.

Thus fishermen were locked into a system which new technology alone would not break open. If the intermediaries chose to they could consider the addit,ional volumes of fish caught, as a result of the fishermen having access to more modern technology, as a ‘glut’, and pay reduced prices. The fisherman would have little alternative but to accept what he was offered because of his debt to the middleman and the distances between Lake Victoria and the major fish markets.

For as long as fishermen were forced to continue selling their fish into the traditional distribution system, mechanising Lake Victoria fisheries was likely to have only a limited effect on the incomes of the fishermen and the supply of this source of protein to consumers. Rosson's experience was shared by McHenry[8] on a similar project to develop fisheries on Lake Tanganyika and by Lawson[9] when he studied an attempt to change the fish distribution system in Ghana.

CASE 13.2. Physical Distribution: A Leader, Or Just a Supporter?

Bowersox et al., provide an interesting perspective on the relationship between marketing strategy and physical distribution practices. These authors relate the story of the development of the cut flower market in the USA.

Cut flowers have to be distributed very quickly. Even if they are treated with a preservative, such as silver nitrate, their shelf-life is fairly limited. Californian growers were among the first to develop special containers which helped slow the rate of deterioration in cut flowers. These containers precooled freshly cut flowers in the field, held flowers in different quantities, were designed to fit aircraft hold dimensions and were easy to handle.

The traditional marketing channel for cut flowers was flower shops. These were considered inappropriate when the objective was to expand demand for cut flowers. Market research suggested that only 2.5 percent of households regularly purchased cut flowers but that there were opportunities to induce the public to buy more flowers and more often. Flower shops, however, were oriented towards special occasions such as weddings, funerals, gift days etc. Growers wanted to mass market their produce and so department stores and food chains were targeted because these outlets enjoyed much higher levels of customer traffic.

Research also revealed that many consumers considered the unit price too high for them to purchase cut flowers regularly. The grower's response was to abandon the convention of selling in packs of a dozen stems. They brought down the unit price by packaging in smaller bundles. Roses, for instance, were marketed in lots of three. Having decided on the size of the sales units, flowers were packed in the field accordingly.

To persuade retailers to stock cut flowers margins had to be competitive with those of other products competing for the limited floor space available. Growers invested in the design of a merchandising unit which minimised the floor space required and maximised the impact on prospective purchasers. In addition, because research showed flowers to be an impulse purchase and more likely to take place at the end of a store visit than at the beginning, growers encouraged retailers to position the merchandising units at the checkout counters. These tactics served to increase the profitability of cut flowers to retailers.

This case illustrates how physical distribution and marketing tend to interact. The changes in physical distribution practices required a change in marketing strategy in order to be effective, and vice versa

Channel decisions are integral to the strategic marketing plan. Distribution systems should adhere to the marketing concept, focus on target markets and have sufficient flexibility to enable an organisation to respond to market changes and new market opportunities.

QUESTIONS

1. What are some of the hazards associated with the air, water, and land modes of transportation?
2. Explain how the freight rates-density effect can affect the choice of transportation.
3. Distinguish among conference lines, independent lines, and tramp vessels.
4. Distinguish between special coverage and blanket coverage.
5. When is an export license needed?
6. Explain the following documents: SED, dock receipt, invoice (commercial, foreign customs, and consular), certificate of origin, inspection certificate, air waybill, and bill of lading.
7. Distinguish among these types of bill of lading: clean, foul, straight, and negotiable.

DISCUSSION ASSIGNMENTS AND MINICASES

1. Is there an ideal mode of transportation based on market location, speed, cost, and hazard criteria?
2. What products are suitable for air shipping?
3. Explain how containerization can solve the four packing problems of weight, breakage, moisture, and temperature, and pilferage and theft.
4. What are the functions of a freight forwarder and a customhouse broker? Is it worthwhile to use these agents?

INFORMATION LINKS

1. Distribution Decisions http://www.fao.org/3/w5973E/w5973e0e.htm
2. Channel Management And Physical Distribution http://www.fao.org/3/w3240e/W3240E09.htm
3. Distribution channels http://www.fao.org/3/y4530e/y4530e05.htm

INDIVIDUAL TASK: Channels of physical distribution for the Choosen Company according to the TOP-100 World brands and TOP brands in Agriculture

REFERENCE LIST

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Topic 14. PROMOTION STRATEGIES: PERSONAL SELLING, PUBLICITY, AND SALES PROMOTION

Purpose. This topic examines the communication process in general as well as those promotional components other than advertising that are part of the process. Attention is given to the role of personal selling, both internationally and locally.

The pros and cons of employing local nationals for selling are also discussed.

Table 13.1 The main promotional methods

Form of Promotion	**Advantages**	**Disadvantages**
Personal selling	Permits flexible presentation and gains immediate response.	Costs more than all other forms per contact. Difficult to attract good sales personnel.
Sales promotion	Gains attention and has instant effect.	Easy for others to imitate
Advertising	Appropriate for reaching mass audiences. Allows direct appeal and control over the message.	Considerable waste. Hard to demonstrate product. Hard to close sale. Difficult to measure results.
Public relations	Has a high degree of believability when done well.	Not as easily controlled as other forms. Difficult to demonstrate or measure results.

CASE 14.1. Promoting Herbicide And Insecticide Usage In Nigeria

The Ilorin Agricultural Development Project (IADP), in Western Nigeria, operated some 52 farm service centres and was concerned about the low level of agrochemical usage by farmers within the project area. A survey carried out by the IADP suggested the need for a marketing communications programme. In the case of insecticides and herbicides, there was a need to create higher levels of awareness. The task, with respect to fertilizers, was rather different. Awareness levels were fairly high but usage rates were low. The survey revealed many serious misconceptions about the use of fertilizers and so there was a need for an educational programme that would improve farmers' knowledge of fertilizers.

Farmers' awareness levels of insecticides and herbicides were 10 and 5 percent respectively. Usage rates were 4 percent for insecticides and 1 percent for herbicides. The survey further revealed that those who were aware of these agrochemicals tended to be the larger farmers. Even then the extent of their awareness was fairly limited with awareness of insecticide being limited to seed dressing.

In the case of fertilizer, the survey concluded that the awareness level was far higher, at 65 percent of farmers in the project area. However, the lack of understanding of fertilizers became apparent during personal interviews when many farmers expressed some strange fears and beliefs about the effects of their application on yams. It was widely held among these farmers that yams grown using fertilizer were unpalatable, unsuitable for pounding, could not be used in yam setts and had poor storage characteristics.

This case reinforces the point that advertising rarely results in an immediate sale. The farmers within the IADP area are unlikely to be converted to the use of these agrochemicals by a single advertising campaign, no matter how cleverly designed it may be. It is more likely that any conversions from non-users to users will take place over a considerable period of time. Considerable efforts will have to be made to improve both awareness and knowledge of agrochemicals, among these farmers, before any attempt is made to induce them to try the product

CASE 14.2. Knowledge Of The Market For Onions In The Yemen

In the Yemen Arab Republic onions were supplied from a region of the country where yields were *low, quality poor and supply seasonal. Farmers in Al Bayda, in the southeast of Yemen, discovered that they enjoyed certain advantages in onion production. Ideal agronomic conditions resulted in very high yields, they could produce year-round and the quality was good. Many farmers in Al Bayda took up onion growing and began to transport them over considerable distances to urban markets.*

Whilst Al Bayda farmers had a comparative advantage in onion production they had yet to determine how they could fully exploit this advantage in the market. Since all growers belonged to the same tribe, their chief was able, as an opinion leader and encouraged by a change agency, to convince the growers to cooperate in production, transport and marketing. Coordinated production ensured a continuous flow of produce to market, eight-ton trucks rather than one-ton trucks went to market and transport costs per unit fell to 40 percent of their previous leve. I Produce was sold direct rather than through wholesalers and growers' returns improved by 40 percent.

The Al Bayda farmers also registered themselves as a cooperative in the neighbouring People's Democratic Republic of Yemen. Whenever they learned by radio that prices were higher there, they were able to redirect supplies to that market.

A key factor in this success story was the extent to which Al Bayda farmers kept themselves informed of market conditions through an extensive information network. This included using radio, the telephone and messengers to ensure that supplies were directed to where prices and demand said they were most needed

CASE 14.3. SELLING IN THE EU Antonis C. Simintiras, University of Wales

It was a nice, warm, Sunday afternoon when Michael had to rethink his selling strategies for his region. Michael was born in England and after studying for four years at a major UK

University he joined a leading British pharmaceutical company. Following a successful career in sales within the UK, he was promoted to sales representative for Southeast Europe. Based in Thessaloniki, Greece, he was made responsible for selling the entire range of products for the company's division to pharmacists, doctors and hospitals. Michael went through a rigorous and intensive training program for three months and learned a lot about cultural differences between the British and Southern Europeans. Although he was responsible for covering three countries in the Balkan region (Greece, Bulgaria, and Yugoslavia), Michael had recently come to the conclusion that his selling strategies in Greece were somewhat inappropriate.

After six months of hard work, Michael was happy with the progress that he made. He had managed to open several accounts with hospitals in all three countries and had built up a network of pharmacists and doctors, many of whom had either bought or agreed to buy his company's products. Recently, however, he noticed a change in the attitude of some of his most important customers, especially in Greece, which, in terms of priority, was the first market for development. Until a few months before, almost all of his customers showed a strong interest in his products and were happy to place orders. During the past two months, Michael noticed that the level of interest and willingness to buy deteriorated, to the extent that some of his customers were delaying reordering, despite the fact that their safety stocks were not allowing them such a relaxed attitude toward stock replenishment. Constant feedback from customers indicated that there was nothing wrong with either the products or his selling approach. Both his customers and their patients were very pleased with the products and a lot of positive publicity in the relevant press was generated throughout the region since Michael went there.

Sitting in his rocking-chair overlooking the Aegean Sea from his balcony, Michael was trying to find out what might have gone wrong. He thought he was consistent with his selling approach. He made professional presentations, used a problem-solving approach, followed up his sales, made sure that products were delivered on time. The service level that he offered was exceptional, and above all his strong interest in helping his customers by providing suggestions for growing their business was the best he could do to win the minds and hearts of all his customers. His selling experience in the UK helped him immensely with the above approach. He scrutinized his behavior but did not find any shortcomings or reasons for the apparent customer loyalty problem that he saw as forthcoming.

He played back mentally many of his encounters with his customers and was convinced that he always delivered a personalized and value-added solution to all of them. He could not recall any instance of not keeping his promises or not making an effort to see and discuss things from his customers' point of view. Being the only interface between the customers and the company in that region, his name became synonymous with the firm and this was something that his customers seemed to value. He believed that this approach was the most appropriate for establishing strong and lasting relationships with his customers that, in turn, could prove to be a significant barrier for competitors entering the market.

Michael remembered his training times and the interesting lectures about cultural differences between the North and South. He nodded his head in an affirmative way as if he wanted to say categorically that this was absolutely true. Then he recalled that profits come from repeat customers and customer retention can produce a disproportional return on his investment. He could afford no more time thinking! He had to take some sort of action. He realized that the solution (if there was one) to this problem was hidden somewhere in the cultural make-up of the customers with whom he was dealing. He decided to ring one of his customers (a Greek whom he had met in England during his university years) and invite him over to his house for dinner. This was the first time that Michael decided to socialize with a customer. His customer accepted the invitation and the following is an extract from their conversation after they had finished their dinner and Michael's problem had been discussed.

Customer Michael, I do not think that you fully understand our culture.

Michael I do not claim I do, but what do I miss or do wrong?

Customer I think there is nothing that you do wrong. The issue perhaps is "what you do not do right."

Michael What is it that I am not doing right then?

Customer A salesperson interested in developing long-term relationships with his customers has to do certain things. Other than being professional in his dealings with the customers, a salesperson is expected to interact frequently with doctors, pharmacists and hospital officials in a social context in order to build trust. Frequent social interaction (i.e., in a non-stressful environment) indicates commitment over and above what is required by the protocol, enhances the feelings of trust, contributes to satisfaction of the customer and facilitates conditions for building attitudinal loyalty. This is something that we used to call "relationship selling" in England, as far as I remember.

Michael I think I understand what you are trying to tell me. Much of the relationship-building activity takes place in social as opposed to work environments. Very much like the meeting we have here. I have got it, and I am ever so grateful to you for your help.

Customer You are, as I remember you from the university years, "a fast learner"!

Points to consider

1. What is relationship selling and how does its application vary among different cultures?
2. Are business relationships that are enhanced by social interaction better for global selling?
3. Would you agree that commitment and trust are qualities that can be sold in a similar way to that of products and services? If so, is "relationship selling" a selling from a relationship-building point of view, or is it simply a traditional selling activity?

QUESTIONS

1. Explain how personal selling overseas may differ from how it is used in the USA.
2. What are the requirements of a good publicity program?
3. What is a carnet?
4. Explain why standard sales promotion tools (e.g., premium, coupon) may not be applicable or effective abroad.

DISCUSSION ASSIGNMENTS AND MINICASES

1. Compare domestic communication with international communication. Explain why "noise" is more likely to occur in the case of international communication process in all five stages (source, encoding, information, decoding, and receiver).
2. Is telemarketing widely used?
3. Should expatriate personnel be used? What are some of the difficulties that they may encounter overseas? What can be done to minimize these problems?

INFORMATION LINKS

1. Promotion, advertising, extension, demonstration http://www.fao.org/3/V4450E09.htm
2. Marketing Communications http://www.fao.org/3/w3240e/W3240E10.htm
3. Promotion Decisions http://www.fao.org/3/W5973E/w5973e0f.htm

INDIVIDUAL TASK: Creating of Promotion strategy for the Choosen Company according to the TOP-100 World brands and TOP brands in Agriculture

TEST QUESTIONS

1."Noise" does not affect this stage of the communication process

a. sender
b. encoding
c. decoding
d. receiver
e. all of them can be affected

2. The promotion mix does not include
a. advertising
b. personal selling
c. pricing
d. publicity
e. sales promotion

3. Compared to advertising in terms of promotion dollars, personal selling has a ______ share
a. larger
b. same
c. lower

4. Compared to advertising, personal selling
a. has more noise
b. is a one-way communication process
c. is less flexible
d. is more persuasive

5. This factor enhances sales performance
a. interesting work
b. role conflict
c. role ambiguity

6. This is not an advantage of using foreign-born native personnel in their own country
a. political situation
b. local image
c. competitive pay scale
d. natives' multinational perspective

7. Publicity differs from advertising in this aspect
a. nonpersonal presentation
b. sponsorship
c. use of media
d. payment to media

8. This component of the promotion mix is temporary in nature
a. advertising
b. personal selling
c. publicity
d. sales promotion

9. Sales promotion is used to stimulate
a. consumer demand
b. middlemen's support
c. both

10. Sales promotion does not work well with products which
a. are highly competitive
b. are of high-unit value
c. are standardized
d. have high turnover

11. This is an international customs document that facilitates the temporary duty-free importation of product samples
a. commercial visa
b. trade show document
c. carnet

12. This document acts as the merchandise passport for products intended for trade shows and fairs by allowing the products to be imported duty-free on a temporary basis
a. export license
b. carnet
c. single administrative document

REFERENCE LIST

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Topic 15. PROMOTION STRATEGIES: ADVERTISING

Purpose. The purpose of this topic is to examine advertising practices in various countries. The variations in advertising practices are discussed, as well as particular problems associated with the use of advertising media abroad. Finally, the topic closely analyzes the most controversial subject in international advertising - standardized advertising. Some practical guidelines are offered that may be useful in resolving the controversy.

To be able use Porter's Five Forces tool

Purpose of Advertising Strategy

An advertising strategy is designed to sell a product. It is a one-way form of communication, from company to consumer, geared toward giving consumers the information necessary to make a purchasing decision. Advertisements tell consumers about the product and how to get it. The purpose of advertising is to sell products and to build brand name.

Purpose of Promotional Strategy

The promotional strategy is a two-way interaction between company and consumer designed primarily to increase sales, often by attracting new customers. Brand building is a side effect of promotional strategies, but it is not the purpose. Promotional strategies give away something, whether it is free product, money or other awards, as a way to bring in consumers who may not be attracted to the product under normal circumstances.

Characteristics of Advertising Strategy

Advertising strategies are long term and designed to build brand name and increase sales through repetition. Advertising campaigns can cost a great deal of money and may not show immediate results. The advertising strategy is ideal for medium to large companies with brand recognition. Examples of advertising strategy include scripted commercials, magazine advertisements and radio announcements that inform the consumer about a product.

Characteristics of Promotional Strategy

The promotional strategy is usually short lived and can be less expensive than large advertising campaigns, making it ideal for small to medium companies that need to build a name or introduce a product quickly. Examples of a promotional strategy include giving away coupons, printed information or free products.

CASE 15.1 THE MARLBORO MAN: SHOULD WE MODIFY HIS IMAGE OVERSEAS?

Jeffrey A Fadiman, San José State University

The downfall of Winston was due in part to the broadcast ban on cigarette advertising. R.J. Reynolds had a difficult time adapting Winston's appeal to the print media. In contrast, Marlboro did not have this problem, and Philip Morris was able to use magazines and other print media to promote its Marlboro brand effectively. Overtaking Winston, Marlboro is now the undisputed leader in both the USA and worldwide.

Marlboro's success was quite spectacular. It was responsible for the transformation of Philip Morris from a small tobacco company to the number-one cigarette company in the USA. But it was not an overnight success. Initially introduced in a soft box with, among other filters, a red-cork tip, Marlboro had a female image which made the brand unpopular among men. The company decided to make a few changes, which included the neutral- cork tip and the addition of a flip-top, crush-proof box. Perhaps the most important change was the advertising theme. Marlboro's advertisements featured the rugged-looking men, tattooed laborers, and cowboys "who came up the hard way."These virile men usually told something about their he-man lives and explained why they chose Marlboro. Philip Morris was extremely successful in creating a unique image that allowed a man to project himself through the cigarettes he smoked. Winston, on the other hand, could not acquire this distinct image.

The Marlboro cowboy is now a legend. Most US consumers (including many others in all parts of the world) are accustomed to seeing the Marlboro Man. All advertisements of the Marlboro line (full-flavored Marlboro, Marlboro Lights, and Marlboro 100s) have one thing in common - the cowboy. He may ride a horse or he may sit at a campfire. He may be alone or he may be with other cowboys. But he is always in the advertisements. The image is so strong that the copy needs only a few words. It is the cowboy that does all the talking, though without actually speaking. Yet the message is readily understood.

Points to consider

Consider the Marlboro advertisement and select a certain country as your target market. Write a formal business memo to a chief executive officer of a small international advertising agency in which you submit suggestions about:

1. How would you modify the advertisement in order to make it more attractive to a selected target clientele (identify) within the country you have chosen?
2. Why would each change you suggest help the product image to conform more closely to their expectations?

Note: Rough sketches would be nice but are not necessary. Word-pictures can be drawn with equal skill. Simply show each change you are making. It is the originality, imagination, and effectiveness of each suggestion, not your artistic skill that will count.

QUESTIONS

1. Cite some foreign regulations that restrict the use of either advertising in general or certain advertising practices in particular, and offer the rationale for these regulations.
2. Why is it difficult in most countries to buy (a) TV time and (b) newspaper space?
3. Outside of the USA, why is radio probably the closest thing to a national medium of communication?
4. Although the USA is well known for the creation of many new media, what media are more popular overseas than in the USA?
5. Offer the arguments for each of these three schools of thought: standardization, individualization, and compromise.
6. Is there any empirical evidence to support standardized advertising (or its homogeneity assumption)?
7. Are standardization and market segmentation compatible strategies?

DISCUSSION ASSIGNMENTS AND MINICASES

1. Does advertising serve any useful purpose in developing countries and socialist/communist countries?
2. Explain how the programming approach of the US television industry may differ from those used in other countries.
3. Do you think that there is a market for a world or international newspaper?
4. Many American consumers consider direct mail as junk mail, a term that is offensive to the direct marketing industry. At present, this medium is largely underdeveloped outside of the USA. What is your assessment of the future of direct mail overseas?
5. As an advertising manager, do you plan to use a standardized advertisement?

Harman Kardon audio and video products are aimed at the high-end segment of the market. The company has decided to advertise its products with the same graphic throughout the world. By producing basically one advertisement in six languages (English, Dutch, French, German, Italian, and Japanese), the company expected to save at least $200,000. The Zagoren Group was assigned the duty of coordinating the cooperative effort.The US full-page version appearing in *Audio* and *Stereo Review* showed a Harman Kardon amplifier on a grand piano with a black background and "The Components of High Performance" as the headline. For this advertisement to be used overseas, should any changes be necessitated by production and other requirements?

MARKETING TOOL

Porter's Five Forces

is an analysis tool that uses five industry forces to determine the intensity of competition in an industry and its profitability level.

These forces determine an industry structure and the level of competition in that industry. The stronger competitive forces in the industry are the less profitable it is. An industry with low barriers to enter, having few buyers and suppliers but many substitute products and competitors will be seen as very competitive and thus, not so attractive due to its low profitability.

We now understand that Porter’s five forces framework is used to analyze industry’s competitive forces and to shape organization’s strategy according to the results of the analysis. But how to use this tool? We have identified the following steps:

Step 1. Gather the information on each of the five forces

Step 2. Analyze the results and display them on a diagram

Step 3. Formulate strategies based on the conclusions

Step 1. Gather the information on each of the five forces. What managers should do during this step is to gather information about their industry and to check it against each of the factors (such as "number of competitors in the industry") influencing the force. We have already identified the most important factors are:

Threat of new entry

- Amount of capital required
- Retaliation by existing companies
- Legal barriers (patents, copyrights, etc.)
- Brand reputation
- Product differentiation
- Access to suppliers and distributors
- Economies of scale
- Sunk costs

Supplier power:

- Number of suppliers
- Suppliers' size
- Ability to find substitute materials
- Materials scarcity
- Cost of switching to alternative materials
- Threat of integrating forwardGovernment regulation

Buyer power

- Number of buyers
- Size of buyers
- Size of each order
- Buyers' cost of switching suppliers
- There are many substitutes
- Price sensitivity
- Threat of integrating backward

Threat of substitutes

- Number of substitutes
- Performance of substitutes
- Cost of changing

Rivalry among existing competitors

- Number of competitors
- Cost of leaving an industry
- Industry growth rate and size
- Product differentiation
- Competitors' size
- Customer loyalty
- Threat of horizontal integration
- Level of advertising expense

Step 2. Analyze the results and display them on a diagram. After gathering all the information, you should analyze it and determine how each force is affecting an industry. For example, if there are many companies of equal size operating in the slow growth industry, it means that rivalry between existing companies is strong. Remember that five forces affect different industries differently so don't use the same results of analysis for even similar industries!

*Step 3. Formulate strategies based on the conclusions. At this stage, managers should formulate firm's strategies using the results of the analysis For e*xample, if it is hard to achieve economies of scale in the market, the company should pursue cost leadership strategy. Product development strategy should be used if the current market growth is slow and the market is saturated.

Although, Porter's five forces is a great tool to analyze industry's structure and use the results to formulate firm's strategy, it has its limitations and requires further analysis to be done, such as SWOT, PEST or Value Chain analysis.

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INDIVIDUAL TASK: Developing Advertising strategy for the Choosen Company according to the TOP-100 World brands and TOP brands in Agriculture

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Topic 16. PRICING STRATEGIES: BASIC DECISIONS

Purpose. This topic examines pricing decision in an international context. The topic begins with a discussion of the role of price in general. It proceeds to cover the various factors that can affect price, with special attention given to certain variables that are unique to the international market (e.g., foreign exchange rate, dumping, price control). Methods for dealing with a foreign country's hyperinflation and transfer prices will also receive some attention.

This topic seeks to explain:

The wide range of objectives that organisations seek to achieve through their pricing decisions
How producer and consumer sensitivity to price changes affect supply and demand
The nature of cost-revenue-supply relationships and their influence upon pricing decisions
Consumers' perceptions of price and how these are used in making purchase decisions
The differences between cost-oriented and market-oriented pricing strategies, and
How controlled prices are administered.

CASE 16.1. Price-Quality Relationships In Filipino Rice Marketing (Price as an indicator of quality)

In the Phillipines the relationship between the price and quality of milled rice is extremely weak. New rice milling technology was introduced to reduce the enormous losses during the conversion of paddy to rice. However, insensitivity to the reductions in broken and discoloured kernels on the part of the majority of consumers has severely limited the adoption of the improved rice milling technology.

The International Rice Research Institute (IRRI) discovered that the number of broken kernels could increase from 14 to 42 percent with only a 9 percent fall in the wholesale price. It seems that Filipino consumers are more concerned with the variety and aroma of the rice than with the percentage of broken kernels. Not all consumers are as unconcerned with the quality of their milled rice. The Thailand export price suffered a drop of almost one-third when the number of broken kernels rose from 14 to 42 percent.

An alternative conclusion is that the Filipino consumer is quality conscious, and will pay a higher price for better quality, but does not measure quality on the same dimension as those interested in developing improved milling machines (i.e. percentage of broken kernels). The attributes of variety and aroma have already been mentioned. Other plausible measures of quality are moisture content, and the presence of impurities

CASE 16.2 Kenya Seed Company's Uniform Pricing Strategy (geographical pricing)

KSC was jointly owned by the Agricultural Development Corporation (ADC) and the Kenya Farmers Association (KFA). The commitment of the ADC to promoting the development of Kenya's agricultural sector was reflected in KSC's uniform delivered pricing for certified maize seed.

Maize is Kenya's staple food and is therefore a crop on which farmers primarily depend. KSC was keen to ensure that farmers had ready access to the seed the company processed in its Kitale factory. To this end, KSC hybrid maize was sold nationwide at the fixed retail price of K.sh.40 (40 Kenyan Shillings) per 10 kg bag. KSC's initial pricing strategy had been to supply middlemen at a uniform price but it had found that retail prices varied enormously as each distributor added his own margin to the procurement price.

KSC tackled its problem by copying the distribution strategies of Coca Cola and Wilkinson razor blades. The basic idea behind these strategies was to achieve widespread distribution of the seed at uniform prices to the farmer by giving retailers an attractive but fixed margin. The strategy encouraged retailers to actively promote KSC's seed but discouraged them from increasing their margins. The strategy also served to promote the use of certified seed, in place of farm-saved seed, and prevented price discrimination against more remotely located farmers. As a result the aim of promoting agricultural development was also furthered by the uniform delivered pricing strategy implemented by KSC

CASE 17.3 BLOOD DIAMONDS

De Beers maintains its power by using a system that sells exclusively to 125 "sightholders" (diamond merchants from the world's leading diamond-cutting centers). These sightholders gather ten times a year in London to buy stones from De Beers'exclusive sales unit, the Central Selling Organization. They are a crucial link in the supply chain of brokers, cutters, and wholesalers that produces engagement rings and other jewelry of the world's fragmented $56 billion diamond retail trade. Sightholders do not have to buy what DeBeers offers, but they will not be invited back for another "sight."

De Beers has two big problems. On the one hand, human rights groups accuse it of buying illicit (blood or conflict) diamonds from African rebels and rulers who use the proceeds to finance their wars. On the other hand, the company's usual strategy of hoarding diamonds is becoming more and more expensive. For a very long time, De Beers has accumulated raw gems so as to control the supply made available to the world as well as to control the world diamond prices. However, the strategy has become an expensive proposition since there are so many diamond producers, making it difficult for the company to keep absorbing the ever-increasing supply on its own.

De Beers has found a way to kill two birds with one stone. It uses the social problem (the controversy over blood diamonds) to address its commercial problems.The company has suspended all buying of diamonds outside of its own proprietary stones and its contractual purchases. It has announced plans to certify all diamonds sold to sightholders as nonconflict stones. It has told 125 sightholders that they will lose access to De Beers stones if they deal in blood diamonds.

The plan is to use its refusal to handle conflict diamonds to re-invent De Beers as a socially responsible cru- sader.To improve its image, De Beers has positioned itself as a "supplier of choice."While still wanting to maintain its global leadership for uncut diamonds worth $7 billion to $8 billion a year, it aims to become a branded, high-value diamond trader.

De Beers, also known as the syndicate, has another motive. It wants the world in general and the US government in particular to forgive and forget its monopoly or cartel status. It is hopeful that the new image will help to convince American antitrust regulators that it is no longer a monopolist that fixes prices of industrial diamonds. With the antitrust problems being unresolved, De Beers cannot set up operations in the USA which is the world's largest retail market for polished stones. Half of the world's retail sales takes place in American jewelry stores. As part of its rebranding campaign, the Central Selling Organization has become the Diamond Trading Co.

Diamonds have traditionally been graded and valued based on the four Cs - cut, color, clarity, and carat. Is it possible to make "country of origin" the fifth C in the grading system? Canada is doing just that by touting its diamonds as politically correct.

Skeptics dismiss the idea as a gimmick. Some players, however, are counting on it, claiming that the fifth C is not any country of origin but Canada. Boasting Canada's reputation as a peaceful, socially progressive country, and stressing that Canadian diamonds are mined under ethical, environmentally friendly conditions, these organizations are striving to distinguish Canadian diamonds from blood diamonds. Since country of origin has always played a part in defining the quality of a product (e.g., Swiss watches, Italian leather, French wines), it is conceivable that it may work for Canadian diamonds.

Sirius Diamonds Inc. laser-engraves a polar bear on its Canadian stones. Henry Birks & Sons Inc. engraves its Canadian diamonds with a maple leaf and serial number. The government of the Northwest Territories provides a certificate for each diamond that is mined, cut, and polished there. Each certificate has a serial number that is engraved by laser on to the diamond, but some retailers complain that wholesalers are charging as much as 20 percent more for Canadian diamonds.

Points to consider

1. Evaluate DeBeers' pricing practice.
2. Evaluate DeBeers' attempt to promote a new image.
3. Will consumers care where a diamond comes from?

QUESTIONS

1. Explain how exchange rate and inflation affect the way you price your product.
2. What is dumping? When does it become illegal? What can a seller do to circumvent antidumping regulations?
3. What methods can be used to compute a transfer price (for transactions between affiliated companies)?
4. Why might a bread baker employ customary pricing?
5. Which class of customer is likely to find uniform delivered pricing unattractive?
6. What form of pricing is said to be between FOB origin pricing and uniform delivered pricing?
7. How would you define the term, ‘administered prices’?

DISCUSSION ASSIGNMENTS AND MINICASES

1. How should US farmers price their products?
2. To protect itself, how should a marketer price its product in a country with high inflation?
3. Price haggling is an art. Discuss how you can haggle effectively.
4. Explain why US car makers prefer to use the "unbundling" approach in pricing their cars while their foreign competitors tend to use the "bundling" pricing approach.

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Topic 17. PRICING STRATEGIES: COUNTERTRADE AND TERMS OF SALE/PAYMENT

Purpose. A purpose of this topic is devoted to the examination of countertrade as an alternative method of trading. The various types of countertrade are discussed.

CASE 16.1. COUNTERTRADE: COUNTERPRODUCTIVE?

In modern times barter and its numerous derivations, which have conceptually been gathered together under the rubric "countertrade," have gained renewed stature in international trade.This has occurred despite the fact that international money and credit markets have attained unparalleled levels of sophistication.

Where readily acceptable forms of money exchange and viable credit facilities are available, markets shun cumbersome and inefficient barter-type transactions. But, international liquidity problems and government restrictions on the operation of markets have prompted many less-developed countries (LDCs) and nonmarket economies (NMEs), as well as industrial countries, to promote "creative" trade transactions that circumvent the normal exchange medium of modern markets.

The *shortcomings* of countertrade include the following:

1. Countertrade has a high inherent transaction cost.
2. Countertrade limits competitive markets.
3. Countertrade contributes to market distortions that lead to inappropriate economic planning.

Inefficiency in transactions costs

The underlying weakness of countertrade as a mechanism of trade and exchange is its inefficiency. The indivisibility of goods made barter inefficient, for example, and forced those involved with such trade to search for a better way. Barter gave way to goods/services-for-money exchange, which permitted transactions to incorporate divisibility as well as time shifting.The opportunity for more convenient (i.e., efficient), multiparty trade became a reality.

A major factor in the expansion of world trade during the last half of the twentieth century has been the emergence of a few widely accepted currencies, especially the US dollar, as settlement currencies for international transactions. The development of international credit markets to support trade depended on the fact that transactions could be entered into without undue concern by the parties involved as to the delivery of the specific quantity and quality of goods and the timeliness of payment. A key characteristic of this type of market is that the channels of communication and exchange are well defined and relatively simple.

As a consequence of this clarity and simplicity, such markets are efficient. Specifically, the direct and indirect costs involved in the process of exchange account for a relatively small portion of the total cost of the transaction.

Such efficiency is not present in the conditional transactions that make up countertrade. The inefficiency cost must be borne by one or more of the parties involved.

Many countertrade transactions are entered into because the importing country is unable to obtain financing in the international markets and is short of hard-currency reserves.The lack of access, or limited access, to the credit markets may be due to restrictions on the country, placed as a condition for specific new lending by the International Monetary Fund (IMF) or foreign commercial banks. In this environment countertrade is sometimes viewed by an LDC government as a means of engaging in trade without the cost of entering the international finance markets.

Whereas it is correct that countertrade may mean that the international financial markets may not have to be tapped, it is not correct to assume that there are no financing costs associated with a countertrade transaction. In fact, because of the complexity associated with carrying out a countertrade transaction, the cost is higher than if the LDC has had access to those credit markets. Moreover, countertrade may end up subverting the capital and austerity restrictions that in some cases are a part of an IMF/LDC lending agreement.

In countertrade the costs of financing are shifted. They become implicit rather than explicit. The seller may absorb this cost in the form of accepting the obligation to buy or use or resell goods it otherwise would not accept (thus reducing its return on the transaction). Alternatively, the seller may build the transaction's finance costs into the price the buyer must pay. The finance costs are there, though hidden.

Limiting competition

There is another implicit cost when countertrade is required by the LDC or nonmarket economy **(NME)** buyer as a condition of the transaction. Countertrade limits the potential number of sellers in the market. Not every seller firm is willing or able to engage in countertrade; thus, an LDC or NME buyer that insists on countertrade as part of a trade package limits its potential for obtaining a competitive product, service, or price. The fact is that engaging in countertrade costs the LDC or NME economy more in terms of real resources than a straight commercial transaction.

Market distortions and false signals

Developing countries may not have well-developed international marketing facilities. As a result they often find it difficult to break into international markets with goods and services that are nontraditional for their economy.

In other cases an LDC or NME may choose to develop a new domestic industry by buying the technology and plant from abroad. Domestic demand may not be adequate for an efficient plant size. In response, they may opt for a larger, more efficient (but possibly from a world supply view, redundant) plant with the expectation of placing the marginal production on the international market.

Under such conditions counterpurchase or buyback agreements may be sought by the LDC or NME to finance the importation of plant and equipment for a new industry (as in a buyback agreement) or general imports (as in a counterpurchase agreement).The LDC or NME also may be seeking a more knowledgeable partner to handle the international marketing of goods for which it does not have the expertise.

The difficulty with this approach is that countertrade may be used to get goods onto the international market that would not "make it" under usual conditions and will not be competitive once the buyback agreement expires.

Further, the industrial country firm that accepted the counter-traded goods may dump them, which would be disruptive to international markets. The result may be that the LDC or NME producer may falsely interpret the signals and overestimate the real market demand for the dumped goods as being stronger than a longer-term, unsubsidized, market can bear.

Moreover, the secondary consequences of countertrade transactions are not benign.The inefficiencies of countertrade - the false-price signals that result in the building of redundant plant and equipment - tend to promote the establishment of bureaucracies within governments and private firms that have "bought into" countertrade. In turn, these bureaucracies have a vested interest in maintaining the economic distortions that undergird the growth in countertrade.

Summing up

Countertrade is a significant factor in modern international trade. In its different forms it is used as a marketing tool, as a competitive tool, as a tool to restrict trade alternatives, and as a tool to tie the trade of one country to another country. Countertrade in a modern world economy with highly developed goods, capital, and financial markets appears on its face to be an incongruous development. Countertrade is a costly, inefficient, and disruptive anomaly. Yet observers of international trade suggest that the volume of countertrade is growing.

Countertrade takes place in a world of imperfection where the political and economic policies of government and industry distort the relationships between and within the goods, capital, and financial markets.

Points to consider

1. Discuss the pros and cons of countertrade as a form of trade.
2. As a manufacturing firm located in a developed country, you are interested in taking advantage of the Eastern European markets' movement toward market-oriented economies.

However, your potential customers lack hard currency and have asked you to consider countertrade. Are you willing to engage in countertrade? Why or why not?

QUESTIONS

1. Explain these terms of countertrade: barter, counterpurchase, buyback, offsets, clearing agreement, and switch trading.
2. Explain these terms of sale: EXW, FAS, FOB, CFR, CIF, DEQ, and DDP.
3. Explain: (a) bill of exchange, and (b) bankers' acceptance.
4. Explain these types of letter of credit: revocable, irrevocable, confirmed, unconfirmed, back-to-back, and transferable.

DISCUSSION ASSIGNMENTS AND MINICASES

1 Given that countertrade is a fact of life which is not going to go away, is there any valid argument from a *theoretical* standpoint for this method of doing business?

2 Assume that you are a manufacturer being asked to submit a quotation to a potential buyer. How are you going to prepare your quotation in terms of (a) terms of sale and (b) terms of payment?

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TEST QUESTIONS

1. This is not an advantage of countertrade

a. market access

b. foreign exchange
c. pricing alternative
d. efficiency

2. The simplest type of countertrade is

a. counterpurchase
b. parallel barter
c. barter
d. buyback

3. A one-time direct and simultaneous exchange of products of equal value is

a. barter
b. parallel barter
c. buyback
d. counterpurchase

4. The former Soviet Union bought construction machinery from Japan In return, the Japanese took Russian timber This set of parallel cash sales agreements is

a. counterpurchase
b. clearing agreement
c. offset
d. buyback

5. This type of countertrade is used when a seller provides machinery and agrees to buy the related output (ie, made by that machinery)

a. counterpurchase
b. clearing agreement
c. offset
d. buyback

6. When a US company is required by China to manufacture its product in China for the right to sell there, this type of countertrade is used

a. barter
b. counterpurchase
c. compensation trade
d. offset

7. This method of countertrade involves a triangular rather than bilateral trade

a. barter
b. compensation trade
c. offset
d. switch trading

8. Countertrade incurs extra costs that must be borne by

a. a selling nation
b. a buying nation
c. both nations

9. Developing countries that impose countertrade have this characteristic

a. increasing balance of trade
b. declining debt-service ratios
c. declining foreign exchange reserve

10. Firms that are likely to benefit from countertrade are:

a. small firms
b. high-technology firms
c. firms that are not vertically integrated
d. firms that have extensive trade operations

11. Countertrade is

a. cumbersome
b. difficult to get financing from banks

c. costly
d. a psychological problem
e. all of the above

12. This term of payment is the one most desired by importers
a. bill of exchange
b. letter of credit
c. open account
d. cash in advance

Topic 18. SOURCES OF FINANCING AND INTERNATIONAL MONEY MARKETS

Purpose. The topic of this chapter is to discuss the various aspects of financing.

The objectives of this chapter are:

· To describe the elements of the International Financial System
· To give an understanding of the sources of funds available to finance operations and their impact on prices
· To examine the elements involved in the pricing of products and services
· To look in detail at the options, hedges and futures markets
· To show the interrelatedness of all the above in pricing decisions.

CASE 18.1 TOO CLOSE FOR COMFORT

Because of the technology that allows international trading hookups and because of the existence of multinational investment banks, it is quite easy to trade stocks, bonds, currencies, futures, and options on a twenty-four-hour basis and move money across the world in minutes. Because of the industrialized world's laissez-faire approach, there is virtually no authority to control the flow of capital. As a result, for better or worse, some $2 trillion move around among securities markets every day. Although some people applaud the liberalization of world capital markets, just as many people would like to have more government supervision and control.

Bad news travels fast. In the case of financial markets, it may be a matter of seconds. The speed of information transmission was most evident on Black Monday of October 19, 1987. It was a day of financial meltdown. In two sessions during the week preceding Black Monday, the Dow Jones Industrial Average (DJIA) stock index dropped 95 points and 108 points. When world trading resumed on Monday, Hong Kong recorded a 420-point drop. When the New York market opened, waves of selling began. At the end of the day, the DJIA had a record one-day decline of 508 points, which wiped out 23 percent of the index's value or the equivalent of $1.1 trillion. The plunge, when compared to the 1929 stock market crash, was worse in terms of percentage and speed.

Other markets soon followed the New York Stock Exchange - down.There were sell signals everywhere.Tokyo, the world's largest capitalized market, saw a drop in stock value of 14 percent of $400 billion in capital. The decline there of 3836 points was four times the previous single-day drop of 831 points. Sydney lost 25 percent, or $39 billion of the value of Australian stocks. London followed suit, with a plunge of 250 points, or 12 percent of the Financial Times Index of 100 stocks, bringing the two-day loss to 500 points, or 22 percent. Sharp declines were recorded on exchanges in Taiwan, South Korea, Malaysia,Thailand, and Singapore.The same thing happened in Frankfurt and Dusseldorf, Amsterdam, Toronto, and Mexico City. The Hong Kong market was closed for the rest of the week.

The panic repeated itself the following week. On October 26, the Hong Kong market reopened and promptly lost 33 percent of the stock value. The losses elsewhere were as follows: Tokyo (5 percent), London (6 percent), and Frankfurt (6 percent). Then it was New York's turn - a loss of 8 percent. The problem seemed to go round and round like an echo. In all, the world witnessed a loss of $1.6 trillion in global stock market value within days.

There is no question of the chain reaction, akin to knocking over domino pieces. Not so clear, however, were the causes of the panic. The various explanations were the Reagan administration's apparent willingness to allow the dollar to fall, the US trade deficits, fear of global economic recession, mutual funds' massive selling, and computerized program trading.

Also unclear was whether the financial markets in the USA led the declines of the others or whether it was the other way around. Did New York lead Hong Kong, or did Asian markets influence European markets before affecting the New York and Chicago markets that would open later on the same day? At one time, the dominance of the USA was obvious. When the USA sneezed, others caught the cold. However, today, Japan dominates the list of the world's ten leading banks, and its own financial force allows it to act on its own. What is obvious is the interrelatedness of the various markets. They can all quickly act and react to the developments in other markets.

Another piece of the puzzle is the reactions of consumers and investors in the short and long run. Consumers who lost their wealth on the stock markets may decide to curb their spending. The decline in consumption may then lead to a cut in production and employee layoffs.The group that took the immediate brunt, ironically, were the people employed in the securities industry.

In some ways, the Asian economic crisis of 1997 was a repeat of Black Monday. It all started with the Thai baht.Thailand's central bank spent tens of billions of dollars to defend its flawed exchange rate system and insisted that the baht would not be devalued.Then, without any warning, the baht was allowed to float in July, essentially being devalued. The loss of confidence immediately spread to the other financial and asset markets throughout the region. The values of the currencies of Thailand, Indonesia, the Philippines, and South Korea fell sharply, accompanied by the huge losses in the regional stock and property markets.The crisis culminated in the collapse of the Korean won and the Indonesian rupiah in late 1997. The economies that were adversely affected included Hong Kong, Indonesia, South Korea, Malaysia, the Philippines, Singapore,Taiwan, and Thailand.These economies saw their output drop by more than 6 percent the following year.The declines of real GDP were: Indonesia (15.3 percent), Thailand (8 percent), Malaysia (7.5 percent), and South Korea (7.0 percent).

Some experts believe that the globalization of financial markets is inevitable due to the common denominator - money.The global economy has already been closely linked with the aid of technology. Consequently, each financial market is not and cannot be independent. In reality, it is more like a single, global securities exchange with branches in other countries. This reality provides investors and MNCs with more flexibility - so much flexibility that any individual country will find it exceedingly difficult to impose capital controls.The price of this flexibility is a greater degree of market volatility and perhaps chaos in global equities.

Points to consider

1. Black Monday and the Asian economic crisis were about ten years apart. Can an event like that of Black Monday happen again - perhaps in three to five years'time?
2. At the time of those difficult weeks in October 1987, Germany was in better economic shape than the USA, which had record trade deficits and budget deficits. Germany planned just before Black Monday to sell its 16-percent stake in Volkswagen. Should the crash of the US markets have had any impact on West Germany's plan?
3. Because of the globalization of the financial market, some financial experts predict that the international stock indices (based on stock prices of companies worldwide) may eventually replace such national indices as the DJIA and S&P 500 in representing the equity investment sentiment. The Salomon-Russell Global Equity Index and the Salomon-Russell Non-US Equity Index are examples of this development. Do you agree with the prediction? Why or why not?
4. Stock indices are like brand names, with the world's most well-known stock index being the Dow Jones Industrial Average (DJIA). All stock indices have one thing in common: they are supposed to gauge the interests of investors in their respective markets. Unlike the S&P 500 index used by serious investors to determine the strength of the US stock market, S&P Japan and S&P Europe represent the investors' sentiments in Japan and Europe respectively. Do you feel that these national and regional indices serve a useful function in helping investors analyze their international investment opportunities?

QUESTIONS

1. Name some of the financing sources for exporters.
2. Is it possible to raise capital by issuing stocks in a foreign country?
3. What are the functions (or services) of a factor?
4. What is mixed or blended credit?
5. What are the goals and functions of the World Bank, IDA, and IFC?
6. What are the role and functions of the IMF?
7. What is SDR?
8. What are the Euromarket and Eurocurrencies?

DISCUSSION ASSIGNMENTS AND MINICASES

1. The WTO has ruled against the USA three times that a FSC is an illegal subsidy. Should the USA reformulate the program to conform to the WTO's trade rules?
2. Given that foreign competitors through their governments' assistance are able to offer below-market interest rates or financing, how can US firms fight back to remain competitive?
3. Since New York is the financial center of the world, is there any need for US multinationals to use the Euromarket and/or the Asian Dollar Market?

INFORMATION LINKS

1. Pricing And Financing http://www.fao.org/3/W5973E/w5973e0d.htm#chapter%209:%20pricing%20and%20financing
2. Pricing decisions https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/templates-business-guides/glossary/pages/pricing-decisions.aspx
3. Definition of 'Pricing Strategies' https://economictimes.indiatimes.com/definition/pricing-strategies
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5. How to choose a pricing strategy for your small business https://quickbooks.intuit.com/r/pricing-strategy/6-different-pricing-strategies-which-is-right-for-your-business/

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Topic 19. CURRENCIES AND FOREIGN EXCHANGE

Purpose. The purpose of this topic is to discuss the various issues related to international finance.

First, it examines the meaning of money as a medium of exchange.

Second, it examines the role of foreign exchange in international trade while discussing the functions of foreign exchange markets.

Third, it focuses on the effect of currency devaluation and appreciation.

CASE 19.1 UPS AND DOWNS: A FOREIGN EXCHANGE SIMULATION GAME

What goes up must come down.This applies to most currencies as well.The up and down movements greatly and eventually affect what consumers have to pay or are willing to pay for imported products.

For an international marketer, the effect of foreign exchange rate changes on operations and pricing is unavoidable. The marketer must estimate how much the value of a currency will go up or down and predict when the movement will occur.This, to say the least, is not an easy task, and it perplexes even the most experienced money manager. The marketer may be wrong about the direction of the move. Even if the guess is right, the timing may be off. The marketer may thus initiate a move too soon or too late. Without the right timing, the marketer may begin to question the decision concerning the direction.

Assuming that the marketer made the right decisions on the direction and timing, he or she still has to consider the magnitude of change. Or the marketer may think that the currency has moved enough and then begins to hedge or remove the hedge. In other words, there are short-term and long-term trends.They may move together or move in the opposite direction. In effect, it is more than just making one basic decision. Every day (or even every minute) poses a new situation requiring a decision about whether the action is necessary.

Assume you are going to export your products to both Japan and Germany, and assume that the value of the merchandise is $100,000 for each country. You will receive payments in Japanese yen and euro respectively in three months. Your net profit margin is 5 percent. Consult the exchange rates for today by looking up the information in a daily newspaper. One convenient method is to consider the currency futures tables that may be found in the the Wall Street Journal and many daily newspapers. The Wall Street Journal and New York Times also provide options information (simply consider the nearby month as a benchmark). It should be noted that the sizes of the currency contracts are the same for both futures and options.

Points to consider

1. Since you will receive payments in three months, do you think that there is any need to hedge your exposure?
2. Assuming that hedging is desirable, what is your hedging preference: cash, forward, futures, or options?
3. Do you want to hedge both the Japanese yen and euro?
4. When do you want to hedge? (NB: You can hedge at any time within three months.)
5. Consider the exchange rates at the end of the three-month period and see how the profit from the sale of your products is affected by the rate changes as determined by your decisions.

QUESTIONS

1. Explain how inflation and nationalism make it impossible for a single global currency to exist.
2. Why do companies involved in international trade have to hedge their foreign exchange exposure?
3. Distinguish between the spot market and the forward market.

4. Should an exporter use the spot rate or forward rate for quotation?
5. Is devaluation good for exports and imports? Why is the impact of devaluation usually not immediate?
6. Explain how these exchange rate systems function: (1) gold standard, (b) par value, (c) crawling peg, (d) wide band, and (e) floating.
7. How does a clean float differ from a dirty float?
8. How can an MNC hedge or cover its foreign exchange exposure?
9. How does the forward market differ from the futures and options markets?
10. How does inflation affect a country's currency value? Is it a good idea to borrow or obtain financing in a country with high inflation?
11. What are leading and lagging, and how should they be employed with regard to payment and collection?

DISCUSSION ASSIGNMENTS AND MINICASES

1. Should the world abolish all local currencies except the US dollar, which would function as a global currency?
2. Should the world adopt a basket of the five or ten leading currencies (e.g., US dollar, Japanese yen, Swiss franc) as a global currency for international trade?
3. Should European firms insist on the euro for all buying as well as selling transactions?
4. Japan has aggressively pursued the lower yen value. Is this strategy good for Japan?
5. Should the USA abandon the float in favor of the gold standard or some other type of fixed or semifixed system?
6. Both fixed and floating rates claim to promote exchange rate stability while controlling inflation. Is it possible for these two divergent systems to achieve the same goals?
7. How should an MNC reduce its foreign exchange risks?
8. Honda was the first of the Japanese car makers to manufacture its cars in Ohio for the US market. The success of its assembly plant in Marysville (Ohio) led to a second Ohio plant. Honda also began exporting its cars from the American plant to Japan. Mazda and Mitsubishi followed suit. Other Japanese companies that export or plan to export products or components made in the USA to Japan include Hitachi, Yamaha, Fujitsu, and Sony. Politically and financially, what are the benefits of (a) manufacturing cars in the USA for US consumption, and (b) exporting cars to Japan?

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GLOSSARY

International marketing is the multinational process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.

Domestic marketing is concerned with the marketing practices within a researcher's or marketer's home country.

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

Balance of payments The system of accounts that records a nation's international financial transactions.

Balance of trade The difference in value over a period of time between a country's imports and exports

Global marketing The performance of business activities designed to plan, price, promote, and direct the flow of a company's goods and services to consumers or users in more than one nation for a profit. The most profound difference between global and domestic marketing involves the orientation of the company toward markets and planning activities around the world.

Quality The essential character of something, such as a good or service; defined in two dimensions: market-perceived quality and performance quality. Consumer perception of a product's quality often has more to do with market-perceived quality than performance quality.

Quotas Specific unit or dollar limits applied to a particular type of good by the country into which the good is imported.

Distribution channels The various routes through which marketers must negotiate their goods to deliver them to the consumer. Distribution channel structures range from those with little developed marketing infrastructure, as found in many emerging markets, to those with a highly complex, multilayered systems, as found in Japan. Consideration for channel structure involves "the six Cs": cost, capital, control, coverage, character, and continuity.

Direct exporting The type of exporting in which a company sells to a customer in another country

Dumping An export practice, generally prohibited by laws and subject to penalties and fines, defined by some as the selling of products in foreign markets below the cost of production and by others as the selling of products at below the prices of the same goods in the home market

Export regulations Restrictions placed by countries on the selling of goods abroad; among reasons they may be imposed are to conserve scarce goods for home consumption and to control the flow of strategic goods actual or potential enemies.

Foreign-trade zones (ftzs) Regions or ports that act as holding areas for goods before quotas or customs duties are applied. In the United States, more than 150 ftzs allow companies to land imported goods for storage or various processing such as cleaning or packaging before the goods are officially brought into the United States or reexported to another country

Global brand The worldwide use of a name, term, sign, symbol (visual or auditory), design, or a combination thereof to identify goods or services of a seller and to differentiate them from those of competitors.

Global marketing The performance of business activities designed to plan, price, promote, and direct the flow of a company's goods and services to consumers or users in more than one nation for a profit. The most profound difference between global and domestic marketing involves the orientation of the company toward markets and planning activities around the world.

Marketing research The systematic gathering, recording, and analyzing of data to provide information useful in marketing decision making.

Import regulations Restrictions placed by countries on the sale of goods from outside markets; among the reasons they are imposed are to protect health, conserve foreign exchange, serve as economic reprisals, protect home industry, and provide revenue from tariffs. Exporters to markets under such regulations may have to go through various steps to comply with them.

International marketing research The form of marketing research involving two additional considerations: (1) the need to communicate information across national boundaries, and (2) the challenge of applying established marketing techniques in the different environments of foreign markets, some of which may be strange or vexing milieus for the marketer.

Direct selling is employed when a manufacturer develops an overseas channel.

Innovation An idea perceived as new by a group of people; when applied to a product, an innovation may be something completely new or something that is perceived as new in a given country or culture.

Licensing A contractual means by which a company grants patent rights, trademark rights, and the rights to use technology to another company, often in a foreign market; a favored strategy of small and medium-sized companies seeking a foothold in foreign markets without making large capital outlays.

Secondary data Data collected by an agency or individual other than the one conducting research; often useful in market research

Primary data Data collected, as in market research, specifically for a particular research project

Protectionism The use by nations of legal barriers, exchange barriers, and psychological barriers to restrain entry of goods from other countries.

Tariff A fee or tax that countries impose on imported goods, often to protect a country's markets from intrusion from foreign countries

Joint venture A partnership of two or more participating companies that join forces to create a separate legal entity.

International trade is the exchange of capital, goods, and services across international borders or territories. It is the exchange of goods and services among nations of the world. In most countries, such trade represents a significant share of gross domestic product (GDP). While international trade has existed throughout history (for example Uttarapatha, Silk Road, Amber Road, salt roads), it's economic, social, and political importance has been on the rise in recent centuries.

Culture The human-made part of human environment - the sum total of knowledge, beliefs, arts, morals, laws, customs, and any other capabilities and habits acquired by humans as members of society.

Personality traits are relatively stable qualities, but they do vary in degree from person to person.

Exporting is a strategy in which a company, without any marketing or production organization overseas, exports a product from its home base.

A **brand** (or **marque** for car model) is a name, term, design, symbol, or other feature that distinguishes one seller's product from those of others

Branding is a set of marketing and communication methods that help to distinguish a company from competitors and create a lasting impression in the minds of customers.

Price is an integral part of a product - a product cannot exist without a price

Advertising is an audio or visual form of marketing communication that employs an openly sponsored, nonpersonal message to promote or sell a product, service or idea.

Communication is basically a five-stage process consisting of source, encoding, information, decoding, and destination

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