

## Module 4

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# Developing the (International) Marketing Mix

## Introduction

This module covers the following topics:

- The product and the branding decision
  - International product concept
  - Product adaptation versus product standardisation
  - Building international brands
  - Guidelines for a global branding policy
  - Managing brand equity for international markets
  - International brand positioning strategy
- Challenges in international pricing
  - Methods of global pricing
  - Concept of exchange rate and global pricing
  - Role of other drivers in international pricing
  - Strategies for managing competitive global pricing
  - Transfer pricing, reverse auctions, gray market pricing, INCO terms
- Global logistics management
  - Managing global logistics
  - Trade operation and documentation
  - Structure of international distribution system and strategy
- Global communication
  - Global communication and culture
  - Communication tools for Global Marketing
  - Role of exhibition, trade advertising etc.
  - Introduction to e-marketing



### Outcomes

Upon completion of this module you will be able to:

- *discuss* the issues involved in developing product/service mix in context of global markets.
- *explain* and *apply* the concepts of standardisation versus adaptation required for product and communication in global markets.
- *describe* the pricing challenge in Global Marketing and the debate of skimming versus penetration pricing.
- *explain* the mandatory issues about export sales contract and documentation required.
- *explain* the issues involved in global distribution and logistics and *find solutions* to problems and recent developments in the area of logistics.
- *Discuss* and *apply* the concepts in international marketing communication



### Terminology

Product Life Cycle:	The course of a product's sales and profits over its lifetime.
Innovators:	Members of the first consumer group to adopt a product, service or technology
Early Adopters:	Opinion leaders or role models for others
Tangible:	Capable of being touched, held, or preserved in physical form.
Intangibles:	Something that needs to be experienced, that cannot be touched or preserved.
Incoterms	International commercial terms
F.A.S.	Free Alongside Ship
F.O.B	Free on-Board
C.I.F	Cost, Insurance and Freight

## Lesson notes<sup>10</sup>

In many situations, customers seek particular brands, not just products. The challenge is to develop product and brand policies and strategies sensitive to market needs, competition, company ambitions, and resources on a global scale. Effective Global Marketing entails a balance between adapting products and brands to local market preferences and concentrating on standardised global products and brands.

Chapter 10 examines global product and brand decisions. There is a review of basic product and brand concepts, followed by a discussion of local, international, and global products and brands. Product design criteria are identified, and attitudes toward foreign products explored. The next section outlines strategic alternatives available to global marketers. Finally, new product issues in Global Marketing are discussed.

Marketing managers develop pricing objectives and strategies, covered in Chapter 11. The overall goal may be an internal performance measure such as unit sales, market share, or return on investment, but several pricing issues are unique to Global Marketing. A pricing strategy may vary from country to country: low-priced, mass-market products in some countries are premium priced in others. Pricing objectives depend on a product's life cycle stage and the country-specific competitive situation. External considerations such as added costs for shipping across national boundaries are factored in. Global pricing can be integrated in the design process; an approach used by the Japanese.

### Market Skimming and Financial Objectives

When financial criteria such as profit and maintenance of margins are the objectives, price is integral to the total positioning strategy. **Market skimming** targets a segment willing to pay a premium price for a particular brand or for a specialised product, especially when it has just been introduced. Companies that pursue differentiation strategies or position their products in the premium segment use market skimming (e.g., Mercedes-Benz). The skimming strategy is appropriate in the introductory phase of the product life cycle. A high price limits demand to innovators and early adopters. During the growth stage of the life cycle, competition increases and manufacturers cut prices to go to the lower income segments (e.g. Sony's VCRs).

### Penetration Pricing and Non-Financial Objectives

Price can be used as a competitive weapon to gain or maintain market position. **Penetration pricing** sets price levels low enough to quickly build market share (e.g., Sony Walkman in 1979). A company can change objectives as a product proceeds through its life cycle and as competitive

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<sup>10</sup> Participants to the programme are encouraged to read the article, *Going Global: Lessons for Late Movers*, by Christopher Bartlett and Sumantra Ghoshal, Harvard Business Review 78, no. 2 (March-April 2000), p. 133.



conditions change. For example, Sony lowered the price for its PlayStation (PS2) in 2002 in an effort to increase the customer base. A first-time exporter is unlikely to use penetration pricing because the product may be sold at a loss, and companies cannot absorb such losses. Many companies launch new products not innovative enough for patent protection, but penetration pricing achieves market saturation before competitors copy the product.

### **Target Costing**

The actual cost of producing the product will create a cost floor; Japanese companies approach cost issues in a way that results in savings. Western companies are beginning to adopt some of these money-saving ideas.

### **Physical Distribution**

**Physical distribution** discussed in chapter 12, is the movement of goods through channels, made up of a coordinated group of individuals or firms that perform functions that add time and place utility to a product or service. The diversity of channels and the wide range of possible distribution strategies and market entry options present challenges to managers responsible for designing global distribution programmes. Smaller companies are often blocked by their inability to establish effective channel arrangements. In larger companies that operate via country subsidiaries, channel strategy is the element of the marketing mix that headquarters understands the least. Channels and physical distribution are crucial aspects of the total marketing programme and a crucial element of competitive strategy.

### **Marketing Communications**

Advertising, publicity, and other forms of communication are critical tools in the global auto wars. **Marketing communications**—the promotion P of the marketing mix, forms the subject of chapters 13 and 14 and refers to all forms of communication used by organisations to inform, remind, explain, persuade, and influence the attitudes and buying behaviour of customers and others. The primary purpose of marketing communications is to tell customers about the benefits and values that a company, product, or service offers. The elements of the promotion mix are advertising, public relations, personal selling, and sales promotion. All of these elements can be utilised in Global Marketing.

### **Integrated Marketing Communications**

The environment in which marketing communications programmes and strategies are implemented varies from country to country. The challenge of effectively communicating across borders is one reason for using **integrated marketing communications (IMC)**. Various elements of a company's communication strategy must be coordinated. This chapter examines advertising and public relations from the perspective of the global marketer.

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## Reading: Chapter 10



### Reading

#### Keegan Chapter 10

You should now read Chapter 10 of the Keegan text (Global Marketing, 4<sup>th</sup> edition).



### Note it!

In applying your understanding of this material, you should take note of the following:

- The product is the most important element of a marketing programme. Global marketers face the challenge of formulating coherent product and brand strategies on a worldwide basis. A **product** can be viewed as a collection of tangible and intangible attributes that collectively provide benefits to a buyer or user.
- A **brand** is a complex bundle of images and experiences in the mind of the customer. Products and brands can be classified as local, international, and global. A **global product** meets the wants and needs of a global market. A **global brand** has the same name and a similar image and positioning throughout the world. Many global companies have leveraged favourable **brand images** and high **brand equity** by employing **combination (tiered) branding, cobranding, and brand extension** strategies.
- **Maslow's hierarchy of needs** is a needs-based framework that offers a way of understanding opportunities to develop local and global products in different parts of the world. An understanding of **product saturation levels** and **country-of-origin** effects can guide marketers in search of opportunities around the world.
- Product and communications strategies can be viewed within a framework of **extend, adapt, or create options**. Five strategic alternatives are open to companies pursuing geographic expansion: **product-communication extension; product extension-communication adaptation; product adaptation-communication extension; product-communication adaptation; and product invention**.
- The strategic alternative(s) that a particular company chooses will depend on the product and the need it serves, customer preferences and purchasing power, and the costs of adaptation versus standardisation.
- Global competition has put pressure on companies to excel at developing standardised product platforms that can serve as a foundation for cost-efficient adaptation. New products can be



classified as **discontinuous, dynamically continuous or continuous innovations**. A successful product launch requires an understanding of how markets develop: sequentially over time or simultaneously. Today, many new products are launched in multiple national markets as product development cycles shorten and product development costs soar.

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## Reading: Chapter 11



Reading

### Keegan Chapter 11

You should now read Chapter 11 of the Keegan text (Global Marketing, 4<sup>th</sup> edition).



Note it!

In applying your understanding of this material, you should take note of the following:

- Pricing decisions are a critical element of the marketing mix that must reflect costs, competitive factors, and customer perceptions regarding value of the product. Pricing strategies include **market skimming, market penetration, and market holding**.
- International terms of a sale such as **ex-works, F.A.S., F.O.B., and C.I.F.** are known as **Incoterms** and specify which party to a transaction is responsible for covering various costs. These and other costs lead to **price escalation**, the accumulation of costs that occurs when products are shipped from one country to another.
- Expectations regarding currency fluctuations, inflation, government controls, and the competitive situation must also be factored into pricing decisions.
- Global companies can maintain competitive prices in world markets by shifting production sources as business conditions change. Overall, a company's pricing policies can be categorised as **ethnocentric, polycentric, or geocentric**.
- Several additional pricing issues are related to Global Marketing. The issue of **gray market goods** arises because price variations between different countries lead to **parallel imports**. **Dumping** is another contentious issue that can result in strained relations between trading partners.
- **Transfer pricing** is an issue because of the sheer monetary volume of intra-corporate sales and because country governments are anxious to generate as much tax revenue as possible. Various forms of **countertrade** play an important role in today's global environment.

- **Barter, counter-purchase, offset, compensation trading, cooperation agreements, and switch trading** are the main countertrade options.

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## Reading: Chapter 12



### Reading

#### Keegan Chapter 12

You should now read Chapter 12 of the Keegan text (Global Marketing, 4<sup>th</sup> edition).



### Note it!

In applying your understanding of this material, you should take note of the following:

- A **channel of distribution** is the network of agencies and institutions that links producers with users. Channel decisions are difficult to manage globally because of the variation in channel structures from country to country.
- Consumer channels may be relatively direct, utilising direct mail or door-to-door selling, as well as manufacturer-owned stores. A combination of manufacturers' sales force, agents-brokers, and wholesalers may also be used.
- Channels for industrial products are less varied, with manufacturer's sales force, wholesalers, and dealers or agents utilised.
- **Retail distribution** takes many different forms, including **department stores, specialty retailers, supermarkets, convenience stores, discount stores, warehouse clubs, hypermarkets, supercentres, and category killers.**
- **Global retailing** is a growing trend as successful retailers expand around the world in support of growth objectives. Selection, price, store location, and customer service are a few of the competencies that can be used strategically to enter a new market. It is possible to classify retailers in a matrix that distinguishes companies offering few product categories with an own-label focus; many categories-own-label focus; few categories-manufacturer-brand focus; and many categories-manufacturer-brand focus. Global retail expansion can be achieved via organic growth, franchising, chain acquisition, and joint venture.
- Transportation and physical distribution issues are critically important in Global Marketing because of the geographical distances involved in sourcing products and serving customers in different



parts of the world. Important activities include **order processing**, **warehousing**, and **inventory management**.

- To cut costs and improve efficiency, many companies are reconfiguring their supply chains by outsourcing some or all of these activities. Four transportation modes—**air**, **truck**, **water**, and **rail**—are widely used in global distribution. Distributing products around the globe is made easier by **containerisation** and **intermodal transportation**.

## Reading: Chapters 13 and 14



Reading

### Keegan Chapters 13 and 14

You should now read Chapter 13 and 14 of the Keegan text (Global Marketing, 4<sup>th</sup> edition).



Note it!

In applying your understanding of this material, you should take note of the following:

- **Global advertising** consists of the effort required to create a global campaign that forces a company to determine whether or not a global market exists for its product. The trade-off between **standardised** and **adapted advertising** is often accomplished by means of **pattern advertising**, which can be used to create localised global advertising.
- Global advertising campaigns can be both cost effective and beneficial to international companies in that they lend themselves to **economies of scale** (the costs can be spread out over a wider range of market targets). There may be need to only fine tune the advertising or to add another language voice over to adapt the promotion. The caution remains, however, that global advertising may only be successful for products where there is little evidence of ethnicity or SRC and where the product or service being presented is culturally and socially acceptable in the market concerned.
- A company utilises **public relations** (PR) to foster goodwill and understanding among constituents both inside and outside the company. In particular, the PR department attempts to generate favourable **publicity** about the company and its products and brands. The PR department must also manage corporate communications when responding to negative publicity. The most important PR tools are press releases, media kits, interviews, and tours. Many global companies make use of various types of **corporate advertising**, including **image advertising** and **advocacy advertising**.



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## Activity 4.1



Activity

### Internet Exercise: Brand equity

Go to the bossini website ([www.bossini.com](http://www.bossini.com)) to see the value of the clothing company's brand equity. How has bossini created a branded house as opposed to the house of brand which FMCG's create? What are the company's global markets?

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## Activity 4.2



Activity

### Small Group Activity

In small groups, take a new product idea and carry the new product through a new product development process for the global marketplace. You may have to use your imagination in certain phases. When you have finished, analyse your effort. Do you think your product has a chance of success? What factors would be critical to the success of the product? What additional information do you need to be able to make the idea work? Where would you get the information?

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## Activity 4.3



Activity

### Written Exercise

List 10 of your favourite brand names. Which are global brands? What do you like about the product and/brand name? What do you dislike? What image does the brand have in your mind? How loyal are you toward the brand? Students can write a short paper and share their answers with the class.



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## Summary



### Summary

In this module you learned:

- The challenges of developing product/service mix for global markets.
- Product and marketing communication strategies; the dilemma of standardisation and adaptation.
- The challenge of global pricing, and pricing strategies such as skimming versus penetration.
- Moving goods across national borders, including export sales contracts, terms of shipments and documentation.
- The complexities of global distribution and logistics.

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## Assignment



### Assignment

#### Case Study: Boeing versus Airbus: A Battle for the Skies

Read through the case study entitled, *Boeing versus Airbus: A Battle for the Skies* on pages 360-361 of the Keegan text and respond to the following questions:

1. Assess Boeing's plans to subcontract out significant portions of the 7E7's manufacture.
2. How can Boeing successfully compete in the airline industry with Airbus and others?
3. Contrast the difference in strategy for Boeing and Airbus.

Submit your responses to the case study questions to your instructor or tutor for evaluation.

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## Assessment



Assessment

### Out-of-Class Reading:

Kohli, C., Suri, R., & Mrugank, T. (2002). *Creating Effective Logos: Insights from Theory and Practice*. *Business Horizons* 45, no. 3 (May/June), pp. 58-64.